



REPUBLIC OF POLAND

STRUCTURAL REFORMS
ON THE PRODUCTS AND SERVICES MARKET
AND
ON THE CAPITAL MARKET

Warsaw, 2004

CONTENTS

I.	INTRODUCTION.....	2
	Competitive position of the Polish economy	4
II.	IMPROVEMENT OF THE ECONOMY COMPETITIVENESS	5
II.A.	PRODUCTIVITY AND ECONOMIC GROWTH.....	5
II.B.	COMPETITION POLICY	6
1.	State aid	6
II.C.	ACTIVITY CONDITIONS OF ENTERPRISES IN POLAND.....	7
1.	Economic activity undertaken by foreign entrepreneurs.....	8
2.	Facilitating running activity in the Small and Medium-sized Enterprises Sector.....	9
3.	Tax law	10
4.	Effectiveness of the public procurement system.....	11
II.D.	INVESTING IN KNOWLEDGE AND INNOVATION	12
1.	Development of the research and development sector and innovation.....	12
2.	Information society	14
3.	Educational system supporting a knowledge-based society	15
II.E.	OPENING THE NETWORK SECTORS OF THE ECONOMY FOR COMPETITION.....	16
1.	Telecommunications sector.....	16
2.	Energy sector.....	17
3.	Transport sector.....	17
4.	Postal services	18
II.F.	OPENING THE POLISH ECONOMY FOR INTERNATIONAL COMPETITION	19
1.	Implementation of the Internal Market Directives.....	19
2.	Foreign trade and foreign direct investment	19
III.	ECONOMIC AND SOCIAL COHESION.....	21
1.	Investing in human capital	21
2.	Educational system.....	22
IV.	ENVIRONMENT	24
1.	Implementation of the Kyoto decisions	24
2.	Impact of the industry sectors on the environment	24
3.	Proecological policy	25
V.	THE CAPITAL MARKET AND THE FINANCIAL SERVICES MARKET.....	25
1.	Administrative and legal surrounding.....	26
2.	Market development.....	28
VI.	FOLLOW-UP ON THE RECOMMENDATIONS SET OUT IN THE BEPG	29
ANNEX – THE OTHER REFORMS		36
1.	Privatisation.....	36
2.	Restructurisation.....	38
3.	Agriculture and rural development	40
5.	Labour market	42

I. INTRODUCTION

As of the 1st of May of 2004 Poland subjected to all EU economic policy co-ordination procedures. The Broad Economic Policy Guidelines (BEPG) constitute the principal document defining the current directions of that policy. It contains practical recommendations for Member States concerning the implementation of the Lisbon Strategy. The BEPG is supplemented by “economic co-ordination processes”, the Cardiff process, which refers to structural reforms of the goods and services market, as well as the capital market being of particular importance. The European Commission (EC) monitors on an annual basis the implementation of the BEPG by the Member States. This purpose is served inter alia by the Cardiff reports. Poland, as well as the other EU countries, is involved in the process of economic policy co-ordination through the annual presentation to the EU.

***The Cardiff Report** – Poland presents the changes that have taken place on the products and services and capital markets, and an assessment of their performance. At the same time, it provides a synthetic description of the Government’s activities in the economic and social sphere, as contained in the government’s principal economic programmes and modified assumptions. The programme aims, as presented in the report, to reflect Poland’s economic and political situation in mid-2004.*

The main aim of Poland’s long-term economic strategy in the European Union is to achieve a high and stable rate of economic growth, necessary in order to eliminate the gap dividing Poland from the EU-15. It will also allow to efficiently combat negative phenomena observed in the social sphere (high unemployment rate, large area of poverty).

Achieving a high rate of economic growth and decreasing the differences between the Polish economy and the economies of the EU-15 is possible only in the situation of full implementation of structural reforms. Tasks are carried out basing on sectoral, horizontal and regional strategies. The strategic mid-term planning document, which on the national level combines the intervention activities of the state, is the **National Development Plan for the years 2004-2006**. The document determines the most important structural activities, which Poland as a member of the European Union, is starting in the years 2004-2006 using the structural funds, the Cohesion Fund and national funds and it points to Poland’s economic development directions in the first years after accession, which are to ensure conditions fostering long-term economic growth and increase the level of citizens’ life.

The strategic aim of the National Development Plan (NDP) is to develop a competitive economy based on knowledge and entrepreneurship, able to long-term harmonic development, ensuring growth of employment and improving social, economic and spatial cohesion with the European Union on the regional and national level.

At the same time NDP, as a document integrating sectoral policies and including developmental needs of the different regions, complies with:

- Preliminary NDP, which determined the development directions serving to enhance social and economic cohesion in the period before Poland’s accession to the European Union,
- Economic Strategy „Entrepreneurship – Development - Employment”;
- Long-term and mid-term strategies, which emerged in the years 1999-2001¹,

¹ Including the National Strategy of Employment Growth and Human Resources Development (2000-2006), Cohesive Structural Policy of Rural Areas and Agriculture Development (2000-2006), Polish Structural Policy in the Fisheries Sector (2001-2006), National Transport Development Strategy (2000-2006), State Ecological

- provisions of the Treaty, instrument adopted under the Treaty and Community policies and activities (in compliance with Article 12 of Regulation 1260/99/EC relating to structural funds)².

Implementation of the NDP strategic aim takes place by achieving partial aims, defined in response to the global competition challenge and to the conclusions resulting from an analysis of advantages and disadvantages of the Polish economy, as well as the chances and threats it faces:

- supporting achieving and maintaining in the longer period high GDP growth,
- increasing the level of employment and education,
- including Poland in the European transport and information infrastructure networks,
- intensification of the process of increasing the share of high value added sectors in the economy structure,
- supporting the participation in development and modernisation processes of all the regions and social groups in Poland.

The condition for the implementation of the set strategic objective and the partial aims is, apart from fiscal and legal activities, the concentration of available financial means on a few basic development axes (priorities).

The activities for improving Poland economy's competitiveness are undertaken first of all on basis of:

- Sectoral Operational Program – Improvement of the Competitiveness of Enterprises for the years 2004-2006 (SOP-ICE), adopted by the Council of Ministers on 16.3.2004.
- Integrated Regional Operational Program 2004-2006 (IROP), adopted by the Council of Ministers on 16.3.2004.
- Sectoral Operational Program Human Resources Development 2004-2006 (SOP-HRD), adopted by the Council of Ministers on 16.3.2004.
- Strategy of increasing the outlays on R&D activities in order to achieve the aims of the Lisbon Strategy, adopted by the Council of Ministers on 30.3.2004.
- Strategy on the Development of the Information Society in Poland – ePoland for the years 2004-2006, adopted by the Council of Ministers on 13.1.2004.
- Program for Promoting the Polish economy until the year 2005, adopted by the Council of Ministers on 2.9.2003.
- Program for the years 2003-2006. Establishing the mechanism and structures of e-commerce development in Poland, adopted by the Council of Ministers on 22.7.2003.
- Government activity directions in relation to small and medium-sized enterprises from 2003 until 2006, adopted by the Council of Ministers on 4.2.2003.
- Restructurisation programs and strategies for chosen sectors of industry
- Strategy of changing the production and consumption patterns for those fostering the principles of sustainable growth, adopted by the Council of Ministers on 14.10.2003.
- Law of 2 July, 2004 on freedom of economic activity, signed by the President of Poland on 22.7.2004.

Policy for the years 2003 - 2006 including the perspective for the years 2007-2010, National Regional Development Strategy (2001-2006), Action Plan for the Information Society Development in Poland for the years 2001-2006 e-Poland, Poland 2025, Long-term Sustainable Development Strategy, National Management Policy, Tourism Development Strategy for the years 2001-2006. The Governmental Program Supporting Tourism Development for the years 2001-2006.

² Including in particular: Common Agricultural Policy, Common Fisheries Policy, employment policy, environmental protection policy, research and development policy, including the field of information society, spatial development policy, equal treatment of men and women policy, public procurement policy.

Competitive position of the Polish economy

Compared to the EU-15 states, the Polish economy can be characterized by low competitiveness level, a different structure and level of development, a different pattern of comparative advantages (abundance of the work factor, lack of capital). Abundance of the work factor is not accompanied by an appropriately high share of highly skilled labour, which reduces the capital absorption capacity. Poland's economy competitiveness will, in the next few years, be dependent upon quick technological, managerial and organisational solutions absorption capacity and upon turning them into commercial success. Innovativeness and entrepreneurship will thus be the main factors of the Polish economy development in the present decade. Implementation of the National Development Plan and operational programs will serve this aim in the years 2004-2006.

- Poland in 2003 achieved **GDP growth** at the rate of 3.8%, 3 percentage points higher than the average for the EU-15 states and close to the average EU-10 growth rate. It is forecasted that in 2004 the growth rate will accelerate to ca. 6%.
- **Gross Domestic Product** per capita in Poland in 2003 amounted to USD 10,854³ (in terms of purchasing power parity) and constituted 42.7% of the EU-15 average.
- **Unemployment** in Poland belongs to the most important social and economic problems and is mainly the result of i.e. economic system transformation and the demographic situation. The unemployment rate in 2003 amounted to 19.8% and was higher as compared to the EU-10 average (14.3%), EU-15 average (8.0%) and EU-25 average (9%).
- **The employment structure** in Poland shows major differences compared to the EU-15 states. The employment rate in agriculture, forestry and fishery amounted to 19.4% in 2002, in industry and construction - 28.6% and in services - 52%. In the EU the respective indexes amounted to 4%, 25% and 71%.
- **Exports per capita:** in Poland in 2002 - EUR 1,150 while in the EU EUR 6,818 on average. Processed goods amounted to 85% of the Polish export.
- **The SME sector** generates ca. 50% of Poland's GDP and employs 2/3 of the work force. The share of micro enterprises in the entire SME sector amounts to 95%, which significantly reduces the possibilities of introducing new methods of production and management. Most of the micro-enterprises based on self-employment.
- **Innovativeness level** of the Polish economy is low. The share of innovative companies in the entire number of enterprises decreased from 37.6% in the years 1994-1996 to only 16.9% in 1998-2000.
- **Expenditure on information technology** in 2003 in Poland was on the level of 2.2% GDP, the average for the UE-15 was 3.0%.

³ EUR 9 598 at the average exchange rate (2003) USD/EUR=1.13086

II. IMPROVEMENT OF THE ECONOMY COMPETITIVENESS

Activity directions, of key importance for building a competitive economy, relate to the four basic spheres:

- **entrepreneurship**, widely understood as: creating new areas of economic activity, improving work efficiency, product and capital expansion outside of the domestic market,
- **innovativeness**, widely understood: scientific research as a source of innovation, including science in the economic development, organisational innovation (new ways of production, distribution, finance organisation), innovation in the field of management and marketing, creating innovative bases in society,
- **liberalisation of network markets**: this means first of all aiming to eliminate the threats in the sphere of unfair competition, related to the so called general economic interest services, performing these services should be regulated and transparent, also in the aspect of public aid, in the sphere of financial services aiming to eliminate the threats for Polish depositors,
- **openness to the world** (national marketing): in competition between states in attracting and maintaining capita, of crucial importance will be systemic competitiveness, i.e. attractiveness of the legal and regulatory framework for economic activity and efficiency of state institutions (more favourable than in other countries of the region).

II.A. PRODUCTIVITY AND ECONOMIC GROWTH

In the years 1994-2003 Polish economy was characterised by a **high rate of economic growth**. The average annual GDP growth rate amounted to 4.4%, and the gross value added growth rate to 4.2%. The main sources of GDP growth were: real investment outlays growth (6.4% a year), gross fixed capital formation growth (3.2% a year) and a high work efficiency growth rate. In 2003 as compared to 2002 a high work efficiency growth rate was registered in the entire economy. The growth was caused first of all by a high increase of value added in economy accompanied by a decrease in employment.

In 2003 the productiveness growth in economy was higher than the unitary labour cost by 2.1 percentage points as compared to 2002 the situation improved by 0.7 percentage points. Such a high efficiency growth rate was possible both owing to factors directly related to work (e.g. better organisation and management) and those indirectly stemming from changes in the technical equipment of work, and thus capital productiveness growth.

In 2003 in Poland functioned 3.2% more enterprises than a year earlier. The number of state-owned enterprises fell, mainly due to the process of privatisation; the number of cooperatives also decreased. The number of commercial companies and undertakings of natural persons increased. Among the commercial companies the greatest number constitute companies with a majority of foreign capital. The greatest group of enterprises form smallest companies employing up to 9 persons, amounting to as much as 95% of all enterprises.

In 2003 the financial situation of enterprises improved, income grew at a greater rate than costs which led to the greatest financial result improvement since 1998. Despite this Polish enterprises are characterised by a relatively low level of profitability.

II.B. COMPETITION POLICY

Competition policy in Poland as in the European Union concentrates on the four basic activity fields:

- 1) eliminating anti-competitive agreements and abuse of the dominant position by enterprises and their unions,
- 2) control of mergers,
- 3) public aid control,
- 4) liberalisation of monopoly sectors.

Strengthening and protection of competition requires undertaking common activities for the entire economy and specific activities for the different sectors. The first group of activities includes activities in the scope of **antimonopoly policy**, i.e. fighting cartels, abuse of dominant position and control and prevention of excessive concentration in economy. The other group of activities concentrates on **liberalisation and building a competitive market structure** by creating the conditions for emergence and development of competition in the different sectors of economy. This relates in particular to network sectors, in which activities aiming at facilitating entry to the markets are accompanied by activities aiming at ensuring cohesion of the markets.

The body responsible for the implementation of the competition policy in Poland is the President of the **Office for Competition and Consumers Protection (UOKiK)**.

In 2003 the President of UOKiK issued 188 decisions in cases relating to practices limiting competition. Altogether in 2003 289 antimonopoly proceedings were conducted in UOKiK, 148 of which were concluded by 31 December 2003. Among these 289 proceedings, 60 related to agreements limiting competition, and 229 to abuse of dominant position. In the same year the President of UOKiK decided altogether 194 cases relating to mergers and take-overs. None of the 151 issued decisions in the above mentioned cases prohibited concentration.

1. State aid

The President of UOKiK is also the statutory body supervising state aid granted in Poland. Monitoring of state aid granted to enterprises is performed on the basis of reports handed in by aid granting bodies and the beneficiaries. On the basis of the reports the President prepares an annual report on state aid.

Currently the legal basis for activities in the scope of monitoring state aid constitutes the Law of 30 April 2004 **on proceeding in cases of state aid**. The adoption of a new law was necessary due to Poland's accession to the European Union and the resulting change in the principles of proceeding in cases relating to state aid. Considering that the European Commission is the body supervising state aid granted in Member States it was necessary to change the procedural provisions in the scope of state aid.

In 2003 853 opinions were issued in relation to aid granted by the state, out of which 166 related to aid programs. At the moment of the report preparation full data relating to state aid for the year 2003 is not available. According to estimates state aids granted in 2003 in Poland was higher than a year earlier and amounted to ca. PLN 22 billion (ca. EUR 5 billion)⁴.

⁴ at the average exchange rate 4,3978 PLN/EUR

The increase of state aid granted in 2003 resulted from the government anti-crisis activity package. In 2003 65.4% of state aid was devoted to sectoral aid (for coal mining 59.1%), 11.6% for horizontal aid, 3.7% for regional aid and 19.3% for other issues. Tax subsidies amounted to 63.5%, other subsidies – 9.9%, prolongation of payment and dissolving payment into instalments – 8.8%, guarantees and sureties - 8% and preferential credits – 4.5% of the aid granted.

Moreover, in 2003 in UOKiK work was continued for further increase of the **effectiveness of state aid control system**. These activities aim at improving transparency of data and facilitating their flow which will result in further improvement of the reliability of the register of granted aid. Activities were focused on the implementation of the **IT system SHRiMP⁵**, serving more accurate monitoring of granted aid, facilitating granted aid control procedures and ensuring coordination of activities undertaken by aid granting bodies and other authorities involved in the process of application of the abovementioned law.

II.C. ACTIVITY CONDITIONS OF ENTERPRISES IN POLAND

Law on freedom of economic activity was adopted on 2 July 2004⁶. The law liberalizes the provisions, decreases bureaucratic burdens for entrepreneurs connected with undertaking activity, shortens the time needed for fulfilling the formalities connected with starting activity and determines a closed catalogue of licenses resulting from Community law.

Among the many provisions favourable for the entrepreneurs one should mention:

- simplification of registration – registration of companies will be possible also by the electronic way without the need to visit many different offices
- decreasing the number of concessions and licenses
- introducing the provision on binding interpretation
- decreasing the number of controls in companies and shortening their duration

The law introduces a new form of **simple registration of economic activity**, called regulated activity. The hitherto licenses relating to an entrepreneur as a subject of economic activity are replaced by entry into the proper regulated activity register, made on the basis of an entrepreneur's statement on fulfilling the requirements foreseen by the law for performing the indicated type of activity. Filing a request for such an entry is enough to start such activity.

When registering it will be possible to use the so called „single counter”. An entrepreneur undertaking activity together with the request for entry into the register of entrepreneurs or inventory may at the same time file a request to be assigned the REGON identification number and make the identifying or up-dating notification required by the provisions on the tax identification number (NIP). The new provisions also make it possible to attach to the request the notification of social insurance contributions payment or social insurance notification, but this will only be possible in 2007.

Licensing of economic activity was limited to only six field of economic activity, crucial from the point of view of the state, prolonging the minimum period for which a concession is granted from 2 to 5 years (unless the entrepreneur request granting a concession for a shorter

⁵ The system for scheduling, registering and monitoring state aid.

⁶ On the 21st of August 2004 entered into force, excluding the provisions concerning new system of entrepreneurs' evidence (from 2007 will enter into force) and provisions concerning definitions of micro-, small- and medium- entrepreneur (on the 1st of January will be obliged)

period of time). Some of the types of activity that hitherto required licenses were deemed to be regulated activity. This relates to i. a.: organisation of professional sport competitions, organising tourist events, detective services, trade in plant protection products etc. Moreover, in order to limit the subjectivity of the concession granting body a change in the proceeding mode was introduced replacing the hitherto administrative procedure by public tender procedure in the case when a number of entrepreneurs request the granting of a limited number of concessions.

Among the new solutions strongly advocated by the entrepreneurial environment is the provision stating that an entrepreneur may file with an appropriate body a request for written **interpretation** as to the scope and way of applying provisions, from which arises the obligation for the entrepreneur to pay public levy, in his/her individual case. The deadline for issuing the interpretation is 3 months, with the possibility of prolonging it to 4 months in cases justified by the complexity of the case. Lack of issued interpretation in the period of 3 months means that the tax body is bound by the position of the tax payer included in the request for issuing interpretation. Provisions in this scope are binding from 1 January 2005. At the same time the entrepreneur may not be subject to any public levy, financial sanctions or penalties in the scope of application of the obtained interpretation.

It was prohibited to simultaneously perform more than one **control** of entrepreneur's activity and the duration of control was limited, including preferences for smaller enterprises. The control duration cannot exceed 8 weeks, and in the case of micro, small and medium-sized enterprises – 4 weeks.

The amended law on the National Criminal Register binding from 1 January 2004 will significantly influence the quickening and facilitating of the process of a new enterprise's emergence. The entrepreneur gained the possibility to fulfil in one place (registry court) many different formalities connected with setting up a company. The registry court is obliged to decide on the request for entry within 14 days from its filing.

1. Economic activity undertaken by foreign entrepreneurs

The law on freedom of economic activity guarantees also the **freedom to undertake activity in Poland for foreign entrepreneurs from the Member States of the European Union and the European Free Trade Agreement (EFTA)** – parties to the EEA agreement on the same conditions as Polish entrepreneurs. Restrictions on setting up branches by entrepreneurs from outside of the EU and EFTA have been upheld by applying the principle of reciprocity, unless ratified international agreements state otherwise. Moreover it was made possible for foreign persons to establish delegations in order to promote the economy of their countries.

On 20 February 2004 amendment of the **law on buying real property by foreigners** was adopted. This law, apart from issues connected in the European Union with the *free movement of capital*, contains simplified principles resulting in accelerating the procedures of granting foreigners permissions to buy real property, by applying the principle of so called tacit agreement of bodies empowered to issue opinions on foreigners requests. The key point is the period of issuing permissions, which is an important element in the investment process. The most important change in the material provisions is releasing the citizens and enterprises from the European Economic Area from the obligation of obtaining permissions to buy real property for investment purposes.

2. Facilitating running activity in the Small and Medium-sized Enterprises Sector

Policy in relation to SMEs concentrates on creating stable and growth fostering law, tax system and on creating entrepreneur-friendly administration. This covers the following areas:

- support of starting activity and in the first period of an enterprise's functioning,
- support in undertaking investment and increasing innovativeness,
- support for using information and communication technologies,
- support in undertaking cooperation,
- support internationalisation of enterprises and in entering new markets,
- support enterprises in overcoming financial difficulties,
- support enterprises in applying sustainable production methods.

In 2003 began the implementation of another program addressed to small and medium-sized enterprises **Directions of the government's activity in relation to small and medium-sized enterprises from 2003 to 2006** adopted in February 2003.

The hitherto entrepreneurs supporting activities were financed from budget funds and from the Phare program. From the day of Poland's accession, structural funds became available for Polish entrepreneurs and they now have the possibility of obtaining support from sectoral operational programs.

Supporting activities serving the development of enterprises and increase of their competitiveness are the most important fields of activities directed towards entrepreneurs.

Activities realised in this areas:

- facilitating entrepreneurs' access to knowledge in the field of running a company and its development,
- facilitating entrepreneurs' access to specialist advice,
- financial support for entrepreneurs in their adaptative activities and activities aiming at diversification and developing of new activities.

In December 2003 started the implementation of the **pilot program of SME productivity and quality improvement** by using information technologies (E4PQ), the project of which was prepared in compliance with the agreement between the Minister of Economy and Labour and the UNIDO Director General and will be supported by UNIDO financial means. The aim of the program is the transfer of knowledge in the scope of productivity and quality improvement by using information technologies, directed at first at pilot enterprises (first of all from the group of small and medium-sized enterprises), and then broadened to include other enterprises.

The law of 20 March 2002 **on financial support** together with executive acts determined the principles and forms of granting financial support to enterprises undertaking new investment or creating new workplaces connected with the investment. Gminas can also apply for financial support for creating and modernising the technical infrastructure, but such an investment would have to be directly connected with an investment of an enterprise⁷.

⁷ By the law of 29 August 2003 amending the law on financial support for investment and the law on the conditions of admissibility and supervision of state aid for entrepreneurs a number of changes were introduced facilitating the application of the law in practice. The changes relate to *inter alia* the deadlines for submitting applications for granting financial support to entrepreneurs (starting from 2004 the applications can only be filed in February of a given calendar year), calculating new investment and cost of labour. The concept of new investment was made more precise.

In 2003 on the basis of the law on financial support for investment altogether 37 contracts concerning granting financial support for a new investment were concluded, this included 10 contracts with gminas for the total of over PLN 183.6 Mio. Within the framework of these contracts entrepreneurs committed themselves to create ca. 9.5 thousand new workplaces. In 2004 within the deadline for submitting applications, ca. 660 applications were submitted, which are now being discussed and evaluated.

In 2003 state aid granted by the Polish Agency for Enterprise Development (including aid granted by the Regional Financing Institutions) to small and medium-sized enterprises amounted to over 260.5 PLN Mio.⁸ Small enterprises were granted aid in the amount of almost 163 PLN Mio, medium-sized enterprises - almost 98 Mio PLN. State aid directed at the SME sector covered almost 33.4 thousand beneficiaries⁹, out of whom 27.4 thousand were small enterprises.

3. Tax law

In the scope of the tax system the most important changes result from adapting the Polish provisions in the scope of indirect taxes to the EU regulations in connection with Poland's accession to the European Union, and from lowering the corporate income tax.

On 1 May 2004 r. the new law of 11 March 2004 on the **goods and services tax (VAT)** entered into force. The law introduces new regulations, i. a. regulations in the scope of intra-community trade connected with abolishing customs borders in trade in goods between Poland and other EU states. In accordance with the law the concept of import and export only relates to trade with third countries, i.e. countries not belonging to the European Union.

Most important changes introduced by the new law include:

- covering land with taxes,
- specific procedures of applying the VAT tax to: travel agencies, used goods, pieces of art, collectionner's items and antiques, intra-community tripartite transactions and intra-community purchase of means of transport,
- modified principles for deductions from tax (i.a. limiting deducting tax due at purchase of personal cars to the amount of 50% of tax due resulting from the invoice or customs document, but not more than 5 000).

From 1 May 2004 VAT rates for some goods increased, i.a. from 7% to 22% for building materials, from 0% to 22% for tractors and machines used in agriculture.

Changes in income tax relate mainly to the principles of tax for entrepreneurs.

From 1 January 2004 the **corporate income tax** rate decreased from 27% to 19% and for natural persons conducting non-agricultural activity the possibility was introduced to choose the way of covering income from this activity with the level rate of 19% or according to the progressive tax scale (rate in the amount of 19%, 30% and 40%).

Moreover from 15% to 19% was increased the rate of tax on income from dividends and other shares in legal persons' income. From 2004 the 19% rate will also be applied to income from sale of securities against payment.

⁸ This is the amount of net subsidy equivalent – the amount of aid that an entrepreneur would obtain if he/she obtained the aid in the form of subsidy, including tax.

⁹ This is the result of adding together beneficiaries according to components, form and purpose of subsidy. It is not excluded that some enterprises could benefit from a few different aid programs. In this case the number of enterprises which obtained aid would be smaller.

The majority of tax reliefs and deductions and the catalogue of exemptions were removed in the law on natural persons income tax and corporate income tax.

On 6 January 2004 the Council of Ministers accepted the document entitled „**Tax Strategy**”. The document determines the directions of changes in the tax system and constitutes the subject matter for social discussions on detailed solutions, which will be introduced in the tax law in subsequent years, especially in the scope of the effective tax level, stability of tax law and changes in the structure of income from tax.

The following are to be introduced:

- a single law covering the tax on income from economic activity of natural and legal persons;
- a separate law concerning tax on personal income of natural persons;
- changes in the scope of flat-rate tax forms – discussing removing the flat-rate on evidenced income and leaving the tax card.

On 23 January 2004 the new **law on excise tax** was passed, which became fully binding on 1 May 2004. Complex alignment of the Polish provisions on excise tax to the tax system binding in the European Union required introducing new institutions to the Polish regulations, the most important of which is the institution of tax warehouse and the procedure of excise tax collection suspension until the moment of release of excise good for consumption.

In the law excise goods were divided into harmonised excise goods, i.e. those subject to a unified excise tax on the common EU market (here belong engine fuels, alcohol goods and tobacco) and non-harmonised goods, i.e. the other goods subject to excise tax in Poland, but not to the common EU excise tax system (i.a. cars, cosmetics, furriery manufacture).

Customs

On the day of accession Poland adopted and applies the common **external customs tariff** of the European Union. Changes in the customs duties are usually made by way of negotiations conducted by the European Union on the WTO forum. In the case of countries that are not WTO members the application of the most-favoured-nation treatment can be provided for by EU's trade agreements with the countries. Additionally customs duties are lowered as a result of agreements included in free trade agreements or as a result of granting unilateral customs preferences.

For important economic reasons additional tariff means may be introduced in the European Union, i.e. autonomous customs duties collection suspension or autonomous tariff quotas. Only ready-made goods cannot be covered by tariff means.

4. Effectiveness of the public procurement system

The law of 29 January 2004 **Public procurement law** implemented the provisions of the currently binding directives and part of the provisions of new directives adopted on 30 April 2004 first of all in relation to the issue of procedures electronisation. Referring to Poland's accession to the EU, the main changes of polish public procurement system concern i.e. eliminate domestic preference, enforce obligatory public procurement notices for polish orderers' publication, bring on Internal Order Dictionary description to facilitate orders' identification, implement of two new institutions reference to removal and control procedures: conciliation and testation as well as possibility of using electronic tools in granting public procurement process.

The process of granting public procurement is a dynamic process in which 3 groups of subjects participate: the orderer, contractors and the President of the Public Procurement Office. The law of 29 January 2004 Public procurement law enables the abovementioned subjects to communicate by way of electronic communication. The law foresees i. a. that the following can be done by electronic means:

- 1) transferring public procurement notices for publication,
- 2) placing notices on the website of the orderer,
- 3) communication between the orderer and the contractors¹⁰,
- 4) making offers,
- 5) granting procurement by way of electronic auction¹¹.

Realization of “Public procurement system” project is one of the activities driving to public procurement system elektronisation. This project is financed by PHARE 2001 aids. Creating the electronic program supporting auction procedure is the main objective of this program.

II.D. INVESTING IN KNOWLEDGE AND INNOVATION

Investing in knowledge and innovation is one of the most important factors deciding now and in the future about the competitiveness of economies. In Poland the level of investment in knowledge and innovativeness of the economy is greatly different from the one of the majority of the other EU states. This is first of all a result of a combination of circumstances such as: low outlays on research and development activity (R&D), weak connections between the different elements of the innovation system (education, research, entrepreneurs, training and advisory institutions, financial market, technology market) and low willingness of enterprises to spend on R&D activity as a result of i.e. lack of implements supporting investments such as taxes clearance, preferential credits.

1. Development of the research and development sector and innovation

The relation of total expenditure on R&D to GDP in 2003 amounted to 0.56%, reaching the lowest level ever. At the same time the share of budgetary expenditure in this amounted to 62.7%, while of the enterprise sector only 29.4%. In 2002 R&D expenditure in relation to 2001 decreased by 0.6 percentage point.. In the light of the Barcelona objective the situation in Poland is very disadvantageous both as to the amount of expenditure on R&D and its structure.

An important indicator of the innovative processes trend is the so called **inventiveness coefficient** i.e. the number of patent applications per 10 thousand inhabitants. In Poland the value of this indicator in 2003 amounted to 0.6 remaining at this level since mid 1990-ties.

One of the basic tools favouring increasing economy inventiveness is the system of targeted aims, determined and financed by the Ministry of Science and Information Technology (MNiI). The basic aim of the system is to implement the results of research and development work in economy. Expenditure on the implementation of targeted projects amounts to 7% of the annual science budget. The system of targeted projects strongly influences the pro-innovation activities of entrepreneurs. Additional financing from MNiI generates 5-times

¹⁰ Relates to procurement of the value of below EUR 60,000, in proceedings for granting procurement of the value of above EUR 60,000 as a rule statements, requests, notifications and information the orderer and contractors exchange in writing. These letter may however be transmitted by electronic means, but have to be immediately confirmed in writing.

¹¹ If the subject of procurement are commonly available services with set quality standards, and the value of procurement does not exceed the equivalent of EUR 60,000 expressed in PLN.

greater outlays for innovation from other sources, sale in the first year that is 5-times higher than the obtained additional financing and a significant increase in the workplaces number (it is estimated that PLN 200 000 invested in research generates one additional workplace).

Poland in 2004 continued the preparations, commenced already in the pre-accession period, for active participation in implementation of the Lisbon Strategy. Activities serving to increase the innovativeness of economy are implemented:

- within the framework of the government Pro-growth Activities Program for the years 2003-2004 (Entrepreneurship – Development - Employment II),
- by the Polish Agency for Enterprise Development, partly from the Phare funds,
- using instruments increasing the preferences in additional financing by the state budget for investment in innovative technologies, including advanced technologies, foreseen in the law on financial support for investment.

Poland is an absolute member of EU Framework Programs, which are the basic instrument supporting R&D and innovation in EU. The beneficiaries are science institutions as well as enterprises.

In the scope of R&D and innovation promotion, MNiI undertook the following actions:

- initiating and financing the first generally accessible Internet information service, run by the Polish Press Agency, the aim of which is to present the activity of the Polish scientific circles under the title “Science in Poland”,
- starting the new website of the Ministry of Science and Information Technology presenting i.a. the field “Science for the economy”,
- establishing awards of the Minister of Science and Information Technology, i.a. in the category “for research for the development of economy”; the initiative will be commenced after the Sejm adopts the law on the principles of science financing,
- starting work on elaborating a strategy of promoting science in business.

The MNiI is preparing the *Assumptions of science, technical and innovation state policy* document responding to the challenge in legal, economic and organization environment of polish science.

In the document adopted by the government in March 2004, prepared by the Ministry of Science and Information Technology in cooperation with the Ministry of Economy and Labour, **Strategy of increasing outlays for R&D activity in order to achieve the assumptions of the Lisbon Strategy**, the directions of activity were determined, which are to enable approaching the aims written down in the Lisbon Strategy. Moreover the document points to the importance of the currently implemented *Foresight* Program and the currently being prepared **Regional Innovation Strategies** which will be the basis for disbursing funds from structural funds and the Cohesion Fund for innovative actions.

Currently under way is also work on the draft **law on supporting innovative activity**, which includes the activity directions pointed to in the “Strategy of increasing” The draft foresees tax preferences and credits on more favourable conditions for companies which invest in innovation (deducting from the tax expenditure connected with improving the technology and expenditure on purchases connected with technological solutions from other companies). Another proposed solution is the possibility of incurring in banks special technological credits. The company will not have to repay the loan until the investment brings profit. It is also proposed to abolish VAT tax exemptions on research and development services. Such a

solution is to be more advantageous for institutions preparing new technologies for companies.

The law of science financing rules, which introduces i.e. legal and organisational solutions building more active science and innovation policy as well as increase in the level of empirical research and development works, was passed in September.

2. Information society

On 13 January 2004 the Council of Ministers adopted the document **Strategy on the Development of Information Society in Poland - ePoland for the years 2004-2006**. The strategy is fully compliant with the Lisbon strategy and the eEurope 2005 activity plan based on it and with the National Development Plan for the years 2004-2006. The aim of the Strategy is to create a competitive economy based on knowledge and to improve the quality of life of citizens by effective informatisation in the scope of:

- universality of access to content and services rendered available by electronic means,
- creating a valuable offer of content and services available on the Internet,
- ability to use them.

National strategy of broadband access to the Internet for the years 2004-2006 was adopted by the Council of Ministers on 23rd December 2003. The aim of the strategy is to increase the number of broadband Internet users by promoting the service and decreasing its price. Hitherto indicators have shown moderate progress of the service in Poland and a relatively high level of prices of the Internet access service. The Government adopted Program **Disseminating broadband access to the Internet for the years 2004-2006** on 31st August this year.

Creating frame, regional and access networks with the possibility of broadband Internet users access (minimum 300 000 users, transfer speed 1.5 Mbit/s per 1 user) in years 2004-2006 is the main objective of this program. The program is concern especially for the areas with low internet access indicators.

In the last 12 months in the area of e-commerce the Ministry of Economy and Labour conducted activities related to the implementation of the **Program for the years 2003-2006 – Creating the mechanisms and structures for the development of e-commerce in Poland** (Electronic Platform for Supporting Trade – **eCommerce**). The program complies with the priorities adopted in the Lisbon Strategy, relating to increasing the competitiveness of in particular small and medium-sized enterprises through the development of electronic economy. The aim of the program is to remove barriers in access of the SME sector to electronic markets and modern distribution and logistic solutions by building and functioning of the „Electronic Platform ...”.

In accordance with the adopted work schedule the different components of the platform are built, including:

- **central electronic catalogue of products, services and economic entities** compliant with the EAN.UCC global standards, which is at the stage of final approval tests, while at the same time the process of gathering data on products and companies is under way,
- **offer platform** based on the Trade Point Poznań (TPP) environment, where the different detailed functional, technical and organisational requirements connected with the development of the Trade Point Poznań were elaborated,

- **Central Repository of Electronic Model Documents**, for which functional and technical and organisational requirements have been elaborated; as a result of conducted tender a contractor for software was chosen which resulted in commencement of implementation activities.

The process of building the national system of exchange of electronic documents within the framework of Poland's membership in the European Union **EWD-P** has finished. The aim of the system is to facilitate the work of Polish officials participating in the legislative process of the European Union by providing the mechanisms for management of documents sent from the European Union and providing the necessary support in elaborating Poland's standpoint/instructions in response to the documents received.

3. Educational system supporting a knowledge-based society

In the period of the last 12 months the realisation of the program of equipping Polish schools with Internet classrooms **Internet classroom in every lower secondary school** and **Internet classroom in every school** continued. Computers in schools were linked by a local network. Each workstation has access to the Internet. Each school apart from the classroom equipment was given adequate software: network operational system and user software.

In 2004 within the Sectoral Operational Program Human Resources Development (SOP HRD) commenced the implementation of projects aiming at equipping with computer hardware and software the following:

- Centres for Continuing Education and Centres for Practical Education (together with Internet access),
- pedagogical and psychological advice offices,
- Central and Regional Examination Board,
- Internet multimedia information centres in school and pedagogical libraries.

Within the National strategy of broadband access to the Internet for the years 2004 – 2006, the number of broadband Internet access users is to increase by at least 300 thousand and 43.9 thousand schools, libraries and higher education schools especially on rural areas are to gain access to the Internet.

Legal regulations were elaborated under which from **1 October 2004** every future primary and lower secondary school teacher will during his/her studies be prepared to teach two subjects (conducting two types of classes). Moreover, during the studies there will be language classes allowing achieving an advanced level of foreign language knowledge and classes in information technology preparing for using information technology in the didactics of the subject taught.

On 1 January 2004 the accreditation system of continuing outside-school education centres guaranteeing obtaining and maintaining a high level of services in the scope of offered professional training was established. The implementation is supported by 3 SOP HRD projects:

- data base of accreditation institutions,
- accreditation procedure training for educational administration personnel,
- accreditation procedure guide of educational centres providing continuing outside-school education.

Continued was the work of the **State Accreditation Committee**, which is currently evaluating the quality of education in the majority of study fields in all higher education schools.

In 2004 within the framework of SOP HRD the implementation of the following projects started:

- post-graduate studies for graduates beginning work as teachers,
- preparing teachers for conducting external exams,
- education courses for teachers,
- implementing modern methods and tools of teaching (preparing innovative programs for vocational education and equipping Centres for Continuing Education and Centres for Practical Education as well as some of vocational schools with modern, technical and didactical layout).

II.E. OPENING THE NETWORK SECTORS OF THE ECONOMY FOR COMPETITION

1. Telecommunications sector

The activities undertaken in the telecommunications sector aim at creating conditions for common accessibility of the telecommunications services around Poland and protection of telecommunications' users.

The process of increasing competition on the telecommunications market was continued through the **Telecommunications law amendment**, which contributed to further liberalisation of the market, increased demand for telecommunications and IT services as well as strengthening the competition on the market and its further development. Telecommunications law amendment gave rise to the compliance with the EU regulations, especially in the following aspects: the universal service definition, conditions for providing universal services, telephone numbers transferring and subscribers' loop accessibility. The amendment contributed also, among other things, to imposing on subscribers duties adequate for their market power. Implemented changes concentrate on the following areas:

- opening the subscribers' loop accessibility;
- telephone numbers transferring and the subscriber choice of the operator providing services through selection and preselection,
- creating mechanisms enabling connections of operators' networks on competitive conditions and introducing transparent rules for settlements between operators due to the co-use of telecommunications networks,
- simplification of the procedures of gaining permissions for conducting telecommunications activity,
- asymmetric market regulation – specific duties were imposed on entities having a significant market power

On the 3rd of September the amended **Telecommunications law of the 16th July 2004**, excluding regulations concerning ensuring broadband access to the Internet for schools and educational institutions as well as other matters regarding fees and telephone blockades, entered into force. The above-mentioned law implements so called second package of telecommunications directives from the year 2002. It envisages also regulations supporting telecommunications development and increasing accessibility of basic telecommunications services, especially for the poorest people and those living in the poor-urbanized areas. The institution of the so called universal service serves this purpose.

The pro-competitive solutions introduced into the Telecommunications law will contribute to the development of entities offering telecommunications services, what in turn should result in the fall in prices of telecommunications services in the long term. Thanks to the ongoing liberalisation process at present there are no legal restrictions preventing new operators from entering the market or limiting their access to the market.

2. Energy sector

Among the most important changes already included in the **Energy Law** are first of all the reporting obligations imposed on the President of the Energy Regulatory Office (URE), these are inter alia:

- informing the European Commission on any case of exclusion or restriction of the transfer services obligation imposed on an enterprise,
- informing the European Commission on the criteria of using transfer services,
- gathering information on investment projects of interest to the European Union and then submitting it to the European Commission.

Moreover the President of URE is obliged to issue, monitor and renounce certificates of energy stemming from renewable sources and prepare proper reports on the subject. Restrictions relating to concessions from the European Union and EFTA states are being reduced.

Currently under way is work on draft law on the rules of compensating the costs of terminating long-term contracts in the **energy sector**, presently covering ca. 55% of the market and constituting the main obstacle in competition development.

Actual use of the TPA (Third Party Access Rule) in Poland does not exceed a few percent of those authorised. It should be noted though that the situation is similar in the majority of EU states.

In the gas sector in 2003, 6 distribution companies, dealing with distribution and retail trade in earth gas, were separated from the Polskie Górnictwo Naftowe i Gazownictwo (PGNiG) S.A. As regards to gas companies, organizational separation of distribution operators is still continued. Transfer system operator was diffused. The legal works on framework of network estate are still continued.

Accordingly to ordinance of Ministry of Economy, Labour and Social Policy concerning schedule of getting law for transfer services, from the 1st of January of 2004 those recipients who used for individual needs at least 15 Mio. m³ of gas fuels in 2003. Actually in the electro energy sector, the right recipients are those who purchased at least 1 GWh energy in 2003.

3. Transport sector

Railway transport. Under implementation is the Government Program of Further Restructurisation and Privatisation of the Polish State Railways (PKP) Group Companies until 2006.

The strategic aim is to increase the competitiveness of railway transport within the framework of sustainable transport development, by mean of:

- making the transport system of the country more efficient and increasing the accessibility of railway transport, including increasing the transport capacity of the main transport lines, higher speed and shorter travel time, reducing the negative impact of transport on the environment,
- lowering the cost of railway transport, including exploitation costs and maintenance costs of railway infrastructure, as well as cheaper access to railway infrastructure,

- integration with the European railway system (adapting to the EU technical standards),
- development of railway technical background companies.

Within the framework of the Railway Transport Office activity as the railway market regulator, in 2004 45 carriers were granted licences for conducting transport activity and activity connected with rendering traction cars accessible. Cooperation with the Office for Consumer and Competition Protection in order to prevent railway managers and carriers from applying monopoly practices.

In relation to the **air transport sector** a real breakthrough took place with Poland's accession to the EU, when the sector was made open for competition from other EU carriers.

The factor which can significantly influence competition on the **air transport market** are duties paid by carriers in connection with using airport infrastructure. Moreover in the Polish air transport sector there still exist strong connections between ground service companies, airports and carriers, which can potentially start market activities aiming at limiting competition.

In the field of **sea transport** Poland remains open for competition. In relation to liberalisation of access to the market and establishing and commercial presence of sea travel, loading services providers, sea and sedition agencies, one should take into account the necessity to comply with international requirements such as e.g. sea safety convention, protection against pollution convention etc. as well as legal provisions binding in Poland e.g. Sea Code, Law on economic activity, Civil Code.

4. Postal services

As a result of **liberalisation** of postal services organisational and structural changes and competition development took place on the market. At present, apart from the Polish Post (Poczta Polska) 84 private postal operators are active on the market, out of them 62 have licenses for the service of accepting, transferring and delivering parcels with correspondence and parcels for the blind, the other operators are active on the basis of notification of postal activity.

Competition activities are already very clear on the courier services market, on which apart from the public operator and private companies also are present.

A license of the President of URTiP has to be obtained for postal activity in the scope of accepting, transferring and delivering on the territory of Poland and abroad of parcels for the blind and parcels with correspondence weighing up to 2000g, excluding parcels reserved for the public operator (i.e. weighing between 350 and 2000g) and excluding parcels accepted, transferred and delivered in a way other than the one determined for universal postal services. The new provision results from **adapting the Polish law to the requirements of EU directives**, in particular directive 97/67/EC, which in article 9 (2) states that for non-reserved services which are within the scope of universal service, Member States may introduce authorisation procedures, including individual licenses (in Poland – permissions) to the extent necessary in order to guarantee compliance with essential requirements. In the present state of the law the scope of permissions is much smaller and will indeed only pertain to postal services of universal character from outside non-reserved services and delivering parcels for the blind.

Market liberalisation stages, determined in EU Directives, first of all aim at gradual limiting public operator monopoly in letters (from 1 May 2004 – till 350g).

The next step on the way to opening the postal services market will consist in decreasing on 1 January 2006 the weight limit reserved up to 50g, and the price limit to the 2.5-times the price charged by the public operator. This stage of liberalisation, i.e. introducing in the Polish legal order *acquis* resulting from the provision of the mentioned directives of the European Parliament and Council, will be implemented on the basis of the provisions of the Law of 18 March 2004 on changing the law – Postal Law, which entered into force on 1 May 2004 with the exception of articles pertaining to the weight and price limits.

Conducting full liberalisation of the postal services market in EU states is planned for the beginning of 2009.

II.F. OPENING THE POLISH ECONOMY FOR INTERNATIONAL COMPETITION

Work finalised in the pre-accession period was to ensure increase in Polish economy openness for Member States markets and eliminating potential barriers in free movement of goods.

1. Implementation of the Internal Market Directives

This year edition of Internal Market Scoreboard (issued by DG Internal Market) for the first time presented the stage of implementation of the **Internal Market Directives** in the new Member States. In relation to the previous year we note in Poland significant **progress in implementing Community law**, though Poland's implementation deficit is still high. Activities aiming at full implementation of the *acquis* in this scope are conducted and monitored on an on-going basis within the framework of the European Committee of the Council of Ministers.

From 1st of May 2004 Poland joined to systems operating at Community level:

1. Technical provisions and norms notification system.
2. SOLVIT system, serving informal solving of problems encountered by entrepreneurs and citizens, resulting from irregular application of Community law by administrations of the different Member States.
3. System of transferring to the European Commission information on physical obstacles in free movement of goods on the Common Market territory and remedies applied by a given state (so called Strawberry Regulation).

In January 2004 emerged the project of the Directive on EU Common Market Services, which is to facilitate cross-border provision of services between Member States by eliminating barriers stopping free trade in services. Poland actively participates in work on Community forum on the project of the said directive.

2. Foreign trade and foreign direct investment

The average export growth rate in the years 1995-1998 amounted to 15.9%. After the breakdown of turnover in 1999 (as a result of the so called Russian crisis) in the subsequent three years the export recovery remained at a stable level of an average 15.9% a year. In 2003 export acceleration for the first time since 1995 exceeded the level of 30.5% and the dynamics was maintained also in the first half of 2004.

According to the NBP data the value of total services' exports was decreasing in recent years (total services' exports shaped at EUR 11.3 billion in 2000, and at EUR 9.8 billion in 2003).

Positive balance of services' turnover was going down as well (EUR 3.8 billion in 1988 compared to EUR 0.4 billion in 2003).

In 2003, companies with foreign capital exported goods for USD 30.5 billion (EUR 27 billion). Their exports increased by 33% in comparison with the previous year. More than 5 percentage points quicker than in companies with Polish capital only. Their shares in total exports shaped at almost 57% and it was by 1 percentage point higher than in 2002. The rising share of these companies in Polish exports confirms higher level of their international competitiveness compared to companies with the Polish capital only.

Simultaneously, the share of companies with foreign capital grew up in imports. In 2003 their imports crossed USD 41.3 billion (EUR 36.5 billion) and it was higher by 25.3% in comparison with 2002. Its share in total imports shaped at 60.7% and increased by 0.9 percentage point in comparison with the previous year.

In the period January- July 2004, exports of food and agriculture products to EU increased by 34.7% (to the level of EUR 1 870.5 billion), while the total goods' exports increased by 22.4% comparing to the similar period of the previous year. In the first 3 months after accession to EU exports rose by 49.2%.

In relation to the Single European Market the process of improvement of Polish goods and services' competitiveness is continued. Though Polish export is still most competitive in the traditionally exported goods of unprocessed origin, in the recent decade an increase in export of more processed goods also took place. Among the 30 biggest goods positions (at 4-digit PCN codes' level) the electromachinery and furniture definitely dominate (exports' share almost 40%, 1.5 times quicker growth than in case of others products). The share of ... in Polish exports was further reduced. The share of mineral products as well as metallurgy products decreased from 1/3 of total exports to almost 16% in 2003.

In the recent years Poland also joined the group of countries exporting services based on knowledge, in particular in the scope of software. Although the share of services based on knowledge in total services' exports is growing, their share in 2003 amounted to 1.2%, while transport services 35.7% and foreign travels 36.5%.

Structural changes taking place in the structure of export to the European Union can be assessed positively, and further increase in the share of more processed goods and services based on knowledge will be a factor favouring increasing competitiveness of the Polish export in the future.

An important role in modernisation of the Polish economy is played by **foreign direct investment**. Foreign investors introduce new technologies, new organisation and management forms to enterprises, and newly founded companies are usually equipped with the most modern machines and facilities.

According to the data of the State Agency of Information and Foreign Investment (PAIIZ), in 2003 USD 6.42 billion (EUR 5.68 billion) came to Poland in the form of foreign direct investment (FDI). This amount is 360.0 Mio higher than in the previous year. Thus the decreasing trend in inflow of FDI to Poland was stopped. Cumulated value of foreign investment at the end of 2003 amounted to USD 72.7 billion (EUR 64.3 billion), including large investment i.e. over USD 1.0 Mio (EUR 0.88 Mio)– USD 69.44 billion (EUR 61.4 billion).

The Program of economic promotion of Poland until 2005 (adopted by the Council of Ministers on 2.9.2003) included proposals of activities in the scope of **export promotion** and

promotion of Poland as the localisation for **foreign investment**, aiming at ensuring conditions for more offensive entering foreign markets with Polish goods and services, as well as at broad absorption of foreign capital.

Institutional changes play an important part in the process of stimulating inflow of foreign investment to Poland. The draft law on Polish Agency for Economic Promotion foresees establishing – by way of turning PAIiZ S.A. into a government agency – an agency integrating activities for economic promotion of Poland. In 2003 Investors' Spokesman was nominated, whose tasks include signalling necessary legislative, organisational, administrative and infrastructure facilitations, which Poland should undertake in order to attract investors. It is also an institution supporting investors in proceeding before other offices.

III. ECONOMIC AND SOCIAL COHESION

Among the priorities of labour market policy is promoting human capital development and life-long learning. The most important activities include: elaborating and implementing a nation-wide system of information on continuing education possibilities in the different regions of the country, establishing and determining the principles of regional distance learning centres networks, increasing access to education at all levels – from kindergarten education to continuing education of adults, including promotion of life-long learning on rural areas, increasing the quality of education in accordance with the labour market requirements.

1. Investing in human capital

Survey of Continuing Professional Education in Enterprises conducted in accordance with Eurostat methodology on a sample of over 40 thousand enterprises shows that 41.4% enterprises finance or co-finance training of their employees, while bigger enterprises do this more often. On average the trained employee spent 28.5 hours a year in classes and the employers invested in the training almost PLN 700. These results place Poland on one of the last places among the Member States of the enlarged European Union, therefore a legislative initiative introducing to the Polish legal system solutions motivating employees to invest in training employees was undertaken. These solutions were determined in the law of 20 April 2004 **on the promotion of employment and labour market institutions**. Provisions obliging voivodship local government to coordinate activities in the scope of continuing education and cooperation with education bodies in harmonising continuing education with the requirements of the labour market.

In the law **on the promotion of employment and labour market institutions** provisions were introduced that oblige the minister competent for labour to determine instruments stimulating the development of continuing education and to aim to achieve a high level of human resources development, i.a. through:

- coordinating elaborating professional qualifications standards for occupations enumerated in the list of occupations and specialisations and keeping databases on qualifications standards
- coordinating elaborating and recommending module occupational training programs and keeping databases of the programs
- granting bonuses for high quality work of institutions
- introducing a system of evidence of institutions educating the unemployed

In the period of the recent years within the framework of World Bank and Phare aid programs qualifications standards for 48 occupations and module training programs together with didactic material for 227 work scope were elaborated.

The law introduced a number of instruments stimulating growth of continuing education of employees. The basic one is the **training fund** devoted to financing and co-financing of the cost of training for employees and entrepreneurs.

The law foresees the following support instruments:

- refund of costs of specialist training of employees threatened with dismissal for reasons relating to the workplace,
- refund of costs of training of employees in the framework of paid training leave lasting at least 22 days, on condition that for the period of the training of the employee on leave an unemployed person will be employed within the program of *job rotation*,
- refund of remuneration and social insurance contribution from the remuneration for every unemployed person directed to the workplace within the program of *job rotation*,
- refund of pension contribution for employees, whom the employers pay training benefit within the program of monitored dismissals

Improvement in labour market mobility is to be ensured by: professional reorientation of persons threatened with restructurisation processes, implementation of the EURES system, introducing monitoring of deficit and surplus occupations, promoting flexible forms of employment, implementing labour demand forecasting system in Poland, which will make it possible to on a regular basis determine the directions and intensity of changes taking place in the occupation and qualification structure on the regional and national labour market.

National Action Plan for Employment define public activities in employment area and prescribe plan of realization the European Strategy for Employment. Most of upper mentioned measures are enclosed in this document.

2. Educational system

Adopting education to the needs of the labour markets is visible also in formulated education aims as well as essence binding in general education realized in all types of schools (i.a. defined abilities and attitudes of school-leavers):

- in lower secondary schools **Upbringing for active participation in economic life** is implemented, which is one of the modules of Community knowledge,
- in upper secondary schools (general, general vocational, vocational) the subject **Basics of entrepreneurship** was introduced, the aim of which is to form the attitude of active participation in economic life and the ability to adapt to the demands of the labour market as an employee, employer and in the form of self-employment,
- popularisation of knowledge in the scope of entrepreneurship will also consist in supporting active attitudes among the youth by i.a. organising olympiads, contests and competitions in schools in the area of mini-enterprises creating.

On 1 September 2004 the obligation of one year kindergarten preparation for children at the age of 6 was introduced.

Poland does not fully make use of its entrepreneurial potential. In connection with the fact that the entrepreneur's initiative is the basic condition for development, innovation and emergence of new workplaces, it should be aspired that as many as possible young people see running their own company as a possible alternative when choosing the career path. Here it is

important that teaching entrepreneurship is conducted at all stages of education. The ministry of Economy and Labour implements the pilot project under the name „**Academic Entrepreneurship Incubators**”, within the framework of which 4 entities, chosen by competition, functioning in different university level schools will obtain subsidy for creating an incubator.

In order to support the access of disabled children and youth to education in recent years special programs were realised financed from the means of the State Fund for the Rehabilitation of the Disabled. The programs were addressed to:

- the blind and people with impaired eyesight,
- the disabled,
- people with impaired hearing.

Realization of *Program for equalisation of educational chances in rural schools*, *Government Program for Supporting Communities in Primary Schools' Nourishment* as well as government program for condition equalisation of starting school pupils *School Layette* were continued.

Moreover in the years 2004-2006 special programs will be implemented that support:

- professional activisation of disabled school leavers,
- employment of the disabled in occupations using IT techniques.

In many university level schools function **Academic Career Offices**, which serve occupational activisation of students and graduates i.a. by cooperation with potential employers, presenting up to date job offers, organising workshops, courses and training, the aim of which is to help in active job-seeking and giving occupational advice.

Work on preparing the Polish model of distance learning (including **e-learning**) was undertaken, which should create better conditions for fulfilling the aspirations and personal educational needs of e.g. the disables or persons living in areas remote from scientific and didactic centres.

In the last 12 months work on occupation of 24 module programs and 6 objective programs teaching programs was conducted and approved for use in schools, which enable to start educating for technical occupation.

Syllabus bases for educating for 19 occupations of the agri-food sector were determined (ordinance), in which the theme of adopting Polish agriculture to functioning in the conditions of membership in the European Union, rules and procedures for obtaining subsidies from EU structural funds were included. At present works on amendment on 138 educational occupancy core programs are continued in the Ministry of National Education and Sport.

Work preparing **occupational advisors personnel** by enabling the candidates to finish qualifying postgraduate studies was undertaken. Framework post-graduate qualifying studies program educating occupational advisors was elaborated. The legal bases for employing occupational advisors in schools and Continuing Education Centres and Practical Education Centres were created.

IV. ENVIRONMENT

The functioning of enterprises is influenced by conditions connected with fulfilling environment protection demands. Implementation of these requirements results directly from the provisions of the act *Environment Protection Law*, adopted European Union legislation, international obligations signed by Poland and the state pro-ecological policy.

Taking into consideration environment protection indicators and social and economic conditions in 2002 the **State ecology policy for the years 2003-2006 including the 2007-2010 perspective** was prepared. It contains aims and determines objectives, which are to be realised in different environment protection areas.

Medium-term objectives focus on implementing the provisions and ecological standards functioning in the European Union and on improving the state of the environment.

1. Implementation of the Kyoto decisions

Ratifying in 2002 the Kyoto Protocol Poland undertook to implement obligations resulting from these agreements, including limiting greenhouse gases emissions by 6% in relation to the emission of the year 1988 (the core year) in period 2008-2012.

As a result of systemic transformation in economy since 1989 Poland achieved significant effects in the scope of environment protections and reduction of emission of different pollutants to the air, including greenhouse gases. In 2002 a reduction of almost 30% in greenhouse gases in comparison to the reference year 1988 was registered. Almost 90% greenhouse gases emerge from the electro energy sector.

Implementing greenhouse emission trade system in Poland may be one of the means of enabling fulfilling Kyoto Protocol obligations. The legal foundations for the trade in emissions adopted by the Council of Ministers on 28 September 2003, the draft of which is currently at the stage of interministerial consultations. Together with executive ordinances it will enter into force on 1 January 2005.

2. Impact of the industry sectors on the environment

The currently prepared draft Energy Policy of Poland pays much attention to the problem of minimising the negative impact of the energy sector on the environment. The main issues connected with environment protection are connected with:

- adopting energetic plants to new norms in the scope of pollutants emissions into the air
- rational water management and disposing of salted water in mining,
- recultivation of post-mining land in mining industry,
- management of furnace waste.

In the energy sector the basic problem connected with protection of land and soil relate to:

- storing the top soil layers in the process of brown coal mining,
- recultivation of land after brown coal mining stops,
- removing mining damages resulting from hand coal mining,
- storing and managing waste from coal burning,
- storing and managing waste from production and enriching of hard coal.

The aim of the *Directive 2001/80/EC of the European Parliament and Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion*

plants is emissions reduction from combustion plants with the rated thermal input equal to or greater than 50 MW. The Directive permits for two ways of fulfilling its requirements. The first way (the simplest) was implemented by ordinance of Ministry of Environment (August 4, 2003) concerning emission installation standards. The second one is, according to the Article 4, §6 of the Directive, alternatively to the introduction of individual emission limit values for sulphur dioxide, nitrogen oxides and dust for the existing combustion plants, to implement a **National Emission Reduction Plan (NERP)** by a member state of the Community. Its execution will effect in the reduction of the overall emissions of sulphur dioxide, nitrogen oxides and dust from the existing plants (which were licensed before the 1st of July 1987) to the levels that would be achieved by the introduction of the individual emission limit values, defined in the Directive. The draft of Polish NEPR has been already prepared. At the moment consultative process is ongoing. The document will be recommended to the European Commission by the European Committee of the Cabinet of Ministers soon.

3. Proecological policy

The strategy of changing production and consumption patterns for those favouring implementation of the principles of sustainable development adopted by the Council of Ministers on 14 October 2003 contains the strategic aim, which is dividing the interdependence of economic growth and natural resources usage, impact on the environment and improvement of the quality of life.

Implementation of this aim is to take place through the following activities:

- 1) Increasing the scope of responsibility for environmental impact in production and service provision activity and consumption, including:
 - introducing the exchange of best practices and know-how between the private and public sector (public and legal partnership),
 - decreasing the consumption of energy, material and water by production and services,
 - using on-going monitoring of the environment for the realisation of sustainable development in production and consumption,
 - activities for the growth of environmental consciousness.
- 2) Creating the conditions for increasing pro-ecological investment, including:
 - supporting pro-ecological investment reducing the consumption of material and energy of the processes of production and service provision,
 - creating conditions for conducting innovative activity directed at changing the patterns of production and consumption,
 - preferring in purchases by the government and local government administration of goods and services that are more environmentally friendly (“green” public procurement)
- 3) Adopting the processes of production, distribution and usage of energy to sustainable development principles, including:
 - differentiating sources of energy supply,
 - improving energetic efficiency in economy.

Under way is work on the **Program of changing production and consumption patterns in economy sector for the years 2004-2013**, which is to implement the provisions of the above mentioned strategy.

V. THE CAPITAL MARKET AND THE FINANCIAL SERVICES MARKET

From the point of view of the requirements of EU membership the process of harmonisation of the **Polish banking law** with the Community law has finished. The recently realised legislative process aimed at maintaining the competitiveness of Polish banks within the EU

single market. The main changes in banking law, regulating *outsourcing* and securitisation, should generally facilitate the functioning of the entire banking sector.

1. Administrative and legal surrounding

On 1 May this year the **amended bank law** entered into force, the effect of which is the amendment of some of its regulations with the aim of better harmonisation with EU law, including implementation of the provisions of the 2001/24 Directive of the European Parliament and the Council on reorganisation and winding up of credit institutions in the part not covered by the law of 28 February 2003 – Law on Bankruptcy and Rehabilitation and introducing changes in the law on economic activity, relating to the implementation of cross-border money transfer.

Moreover, legislative work on the law on some financial covers – entered into force on 1 May this year – was finished. The aim of the law was to implement in the Polish legal order of the provisions of the directive of the European Parliament and the Council 2002/47/EC on financial collateral arrangements. In 2004 work aiming at ensuring greater transparency of the regulation of the entire sector was continued.

On 12 March 2004 the law amending the **Law on public trading in securities and amending other laws** was adopted. The provisions introduced adopt the law in the scope of functioning of the **capital market** to EU requirements. However one of the main elements of harmonisation of the Polish law with EU law was implementation of directive 2003/6/EC of the European Parliament and the Council of 28 January 2003 on insider dealing and market manipulation (Market Abuse Directive). The result of the implementation of i.a. the abovementioned directive in the scope of conducted activities adapting to the EU law will be an increase in the efficiency of supervision and enforcement of law on the capital market.

Poland's joining the European Union brought about the entering into force of provisions relating to i.a.:

- mutual recognition of permissions for conducting the activity of investment companies (single passport),
- the principle of cooperation of Member States in the scope of information exchange and supervision,
- mutual recognition of prospectuses and admissions to public trading.

In order to increase competitiveness in the scope of services offered on the financial market, the law increased the scope of activities, which can be performed by entities conducting brokerage activity by offering services relating to financial instruments other than „classic securities”.

27 May 2004 the Sejm adopted the **law on investment funds**. The law adapts the provisions to the European Union directives. The law broadens the scope of activity of investment funds societies and introduces a number of new solutions relating to investment funds, which function successfully on the market in other countries.

On 27 August 2003 the Sejm adopted the law changing the law of 28 August 1997 **on the organisation and functioning of pension funds**. The amendment introduced i.a. proposals for lowering the charges of OPF.

Due to the expected low rate of replacement of the currently functioning pension system (since 1999) the possibility of additional saving for pension was introduced (III pillar of

pension savings). From 1 September 2004 binding are the **provisions relating to individual pension accounts** (IKE). IKE may be kept in the form of life insurance with a capital fund, investments funds, bank accounts or investment accounts. It will be possible to have only one IKE and the payment for the account in one year may not exceed annually 150% of the average monthly wage.

On 1 January 2004 the **insurance laws** package entered into force, which was adopted on 22 May 2003. The laws package adopted by the Sejm was to fully adapt the national regulations in the scope of insurance activity to the requirements of European Union directives. As a result of introducing the legal regulations the supervisory powers of KNUiFE were enhanced. The body, supervising insurance companies, acquired the empowerment to exchange information with other national supervisory bodies and supervisory bodies from other countries. Moreover the requirements for brokers in the scope of financial covers were made more precise in compliance with EU law requirements. The law also introduces the possibility of selling in Poland participation units by foreign companies managing funds.

Until 31 December 2003 the provisions of the **law on income tax** of natural persons exempted from tax income from sale of listed securities against payment. From 1 January of this year income of natural persons (not conducting economic activity) are taxable at the 19% tax rate and are not combined with income taxable on general conditions.

Strengthening corporate supervision. In January 2004 the Good Practices Committee began work on amending the good practices principles relating to public companies. This proposal relates to i.e. strengthening and making more precise the role of independent public company supervisory board members.

State administration bodies are responsible for creating provisions in the scope of financial services market monitor on an on-going basis changes in EU regulations within the framework of implementation of the **Financial Services Action Plan** in order to introduce in the Polish EU directives.

In the scope of the **financial market infrastructure** in the recent years significant changes take place in retail payment systems. The SYBIR system finished its functioning on the planned date. The system serves inter-bank settlements made with participation of paper documents. From 1 July 2004 all operations are settled in the Electronic Settlement Chamber ELIXIR system.

In September 2003 work on building the EuroELIXIR system began. It will be devoted to conducting national settlements nominated in EUR and to transferring participants' payments to and from the Pan European Settlement Chamber STEP 2 system and to distribution between the participants of any payments in EUR directed from the EUR zone. The system is planned to be start functioning in November 2004.

Adaptation to the European Union requirements takes place also in the scope of securities settlement system. From 13 October 2003 separate Treasury bills and money bonds registers are joined in one Securities Register (RPW). In RPW can be kept securities accounts from foreign deposit-settlements institutions, which enables access to RPW of foreign systems.

From 1 May 2004 in force is the new **exchange market organisation**, compliant with the European Union directives. At the request of the Stock Exchange (GPW) and on the basis of the Minister of Treasury decision the procedure of appointing a GPW privatisation advisor

commenced. Moreover the KDPW development strategy assumes turning to the private shareholder structure and possible alliance with a strategic partner.

Perspectives for the functioning of the Polish banking sector as a result of introducing the New Capital Agreements to Community law

One of the most important legislative initiatives currently implemented at the EU level is introducing to European law the principles of the **New Capital Agreement**. Introducing new principles of calculating capital requirements by EU Member States will significantly influence both the regulatory sphere and the situation of the banks itself.

1. Quantitative results for the banking sector:

Analyses conducted in the banking sector show that implementing the New Capital Agreement (NCA) will result in the Polish banking sector in a general increase of capital requirements (by ca. 10%), which will result in an average solvency indicator decrease by ca. 1.2 percentage points.

2. Qualitative results for the banking sector:

- a) Competition increase within the sector (will result in worsening of the competitive situation of banks not keeping up with the development of risk management techniques).
- b) Introducing NCA principles should clearly improve the quality of the risk management process in Polish banks.
- c) Organisational and employment changes, which will require from Polish banks a great organisational and financial effort, the scale of which, though it is difficult to assess in Poland, seems to be significant.

3. Quantitative results for bank background

- a. in relation to liabilities from the Treasury and from companies – a slight worsening of credit granting conditions
- b. bank liabilities – clear worsening of credit granting conditions (increase of the basic risk weight from 20% to 50%),
- c. liabilities from small and medium-sized enterprises – improvement of credit granting conditions (increase of the basic risk weight from 100% to 75%),
- d. retail liabilities – clear improvement of credit granting conditions (increase of the basic risk weight from 100% to 75% and for mortgage secured liabilities from 50% to 35%).

2. Market development

Banking sector

Changes in the banking sector are connected with the requirement of deep changes in the way of functioning of the judiciary, especially of significant shortening of the duration of court proceedings, solving problems relating to credit security in the form of mortgage or register lien. Adaptative changes in the banking sector will also pertain to liquidation proceedings, capital adequacy, bankruptcy and prudential regulations.

Capital market

Poland aims at creating and functioning of a strong capital market with a broad range of connections with foreign markets, enabling effective obtaining and allocation of capital by Polish entities and investing free means by persons and institutions. One strives to increase the scale and effectiveness of the public and non-public market of share securities (including investing private money in venture capital). One also strives to create a capital market which

would secure the financial needs of small and medium-sized enterprises (directly and indirectly, including through venture capital). Liberalisation of the capital market requires a number of changes among key institutions of the market. This means first of all privatisation of the Warsaw Stock Exchange.

Moreover, in accordance with the challenges raised by the Lisbon Strategy, including in particular increasing the Polish financial services sector competitiveness, in April 2004 the government adopted the **Strategy of capital market development Agenda Warsaw City 2010**. The document included a comprehensive strategy for creating in Poland until 2010 – i.e. in the Lisbon Strategy time horizon – a leading capital market in Central and Eastern Europe. The *Strategy* underlines the development of the *venture capital* sector, indispensable for supporting innovativeness of the Polish economy and the OPF sector and investment funds, which need broadened investment possibilities.

VI. FOLLOW-UP ON THE RECOMMENDATIONS SET OUT IN THE BEPG

In the context of structural changes realised in recent months – it is necessary to relate to the conclusions and recommendations concerning Polish economy and included in documents evaluating the application of the reforms – Report on Structural Reforms and Broad Economic Policy Guidelines.

In relation to the ANNUAL REPORT ON STRUCTURAL REFORMS 2004:

- *Further efforts to raise productivity (i.a. by developing infrastructure, encouraging R&D and innovation, improving the business environment for small enterprises to grow), speed up the restructuring of the economy and accelerate privatisation in particular the steel, coal and energy sectors, making agriculture sector more rationalise.*
- *Pursue urgently measures to address the deep-seated structural problems in the labour market to reduce the rate of unemployment, in particular amongst youth and in rural areas.*
- *Strengthen competition in the telecommunications sector, initiate a liberalisation process in the gas sector and railways.*
- *Counter the relatively high increase in the old age dependency ratio and in view of its rapidly rising debt level by taking steps to increase its labour force participation rate to help long-term sustainability of public finances*

The last BEPG edition presented the following guidelines for Poland:

In the scope of structural problems of the labour market.

- Increase the flexibility of the wage-setting process to ensure that wages better reflect differences in productivity across skills, firms and regions
- Lower the tax burden on labour, together with efforts to widen the tax base on labour, and to improve the efficiency of the tax collection and enforcement system, and reform the tax and benefit system to eliminate financial disincentives to work, in particular high inactivity traps for married couples, and to increase the efficiency of social spending
- Strengthen labour supply by pursuing efforts to better adapt the qualifications of the workforce to the requirements of the labour market and by removing obstacles to regional mobility, especially through reforms of the housing market and improvements in transport infrastructure

A review of the currently binding legal regulations, in cooperation with social partners in the Tripartite Commission, was conducted in order to elaborate new legislative proposals disseminating working time flexibility and increasing work safety.

One of the main factors limiting the possibilities of increasing employment in Poland is the high tax wedge, which in 2003 amounted to 41.4 per cent (for a single person achieving 67 per cent of the average wage in the national economy) and was higher than the average tax wedge in the European Union and acceding countries. Considering the importance of the problem, intensive work is conducted on the different possible solutions, which would lead to decreasing the tax wedge and on their financial consequences.

In the Program of ordering and limiting public expenditures the scope of changes was determined, which is to lead to increasing the attractiveness of undertaking work and limiting the lack of activeness of those remaining out of work.

In the recent years the scale of economic poverty has been growing. It is impossible to increase the stream of funds to support the poorest; the new Law on social aid of 2004 concentrated on more effective usage of the funds. The main aims of the new law are to support joining the market by persons who were excluded from it for a long period of time and implement better addressing of benefits to groups, which are in greatest need of support whether in the financial form or in the form of services.

On of the most important elements of the social aid system, which support occupational activation, is the institution of so called **Social Contract**. Such contract is a form of agreement between a social worker and a person who is seeking benefits from the social aid system, is at the age of occupational activity and is registered as unemployed. The rights and obligations of the parties are determined in the contract.

The Social employment law of 13 June 2003 supports education and activation of occupational as well as social marginalized persons and offers them employment under special conditions.

Improving the infrastructural conditions of investing in Poland is one of the basic factors of increasing the inflow of DFI to Poland and has some influence on the creation of new workplaces. Therefore adequate means should be devoted to extending the infrastructure, including first of all road and telecommunication infrastructure.

Due to limited budget possibilities, it is necessary to maximise the use of funds from the European Union Structural Funds and the Cohesion Fund.

In the scope of reducing the budget deficit and ensure long-term public finance stability

- Reduce the general government deficit in a credible and sustainable way within a multi-annual framework in line with the decisions to be taken by the Council in the context of the forthcoming budgetary surveillance exercise
- Monitor the reform of the pension system to counter the expected increase in the old-age dependency ratio, and take measures to reduce the fiscal risk stemming from the rising stock of contingent liabilities

Decreasing the fiscal imbalance and public finances reform are deemed to be the basis for maintaining long-term macroeconomic stability. The government of Poland, aware of the problem of increasing general government sector debt and accruing public debt, undertook

activities which are to stop these negative tendencies. In September 2003 the Medium-term Public Finances Strategy was elaborated, the continuation and extension of which is the Program of ordering and limiting public spending adopted by the government at the beginning of this year. The reform program proposed by the government is to consist mainly in rationalisation of public spending. However also on the income side a number of actions are foreseen.

The basic activities in the framework of the mentioned program are to broaden the taxable base without introducing additional burdens and making the functioning of the treasury apparatus more efficient. On the expenditure side the main activities cover limiting the administration functioning costs by decreasing employment in the administration, liquidation of some public finance sector units and cuts in other costs as well as social spending reform.

The first area of ordering activity covers administration structures rationalisation, improvement of organisation and management of public institutions and changes in earmarked funds that foster transparency in public spending. The second area, in which decisive action will be taken, is the economy. In this case this means ordering the sphere of social aid and financing of the already started processes of restructurisation of engendered economy sectors and social services, first of all of the hard coal mining, Polish State Railways and health care.

Another group of activities foreseen by the program covers rationalisation of spending in the social sphere. These are not only to lead to limiting the extensive public spending in this sphere, but first of all by gradual changes in the expenditure structure (from passive to active) allow to increase the – very low – employment indicator and limit the poverty sphere. Improvement of these indicators is one of the conditions of Poland's achieving sustainable social and economic growth.

The effect of introducing the reforms proposed by the government will be financial consolidation of the general government sector. In accordance with the Convergence Plan from April 2004 the forecasted general government sector deficit (counted in accordance with the ESA '95 principles) in 2004 will amount to 5.7% GDP, while in 2007 it is estimated that it will reach the value of below 3% GDP.

Currently under way is work on further limiting of social transfers both due to the necessity of rationalising state budget expenditure and due to eliminating the factors fostering occupational de-activation.

Public employment services will realise active pro-employment policy in relation to persons able to acquire rights to pre-pension benefits and to earlier retirement aiming at occupational activation of persons having rights to pre-pension benefits before they make use of the benefits. For the greatest possible number of unemployed at over 50 years of age there will be the possibility of active labour market programs.

Realisation of the task is to contribute to activation of ca. 50 - 80 thousand elderly unemployed persons and persons receiving pre-pension benefits and other benefits.

In the Program of ordering and limiting public expenditures underlined was the necessity to undertake activities activating persons which may undertake work and monitoring of social benefits. The program foresees i.a.:

- Premiums for suspending receiving pre-pension benefits
- Renounce granting pre-pension benefits.

The new law on pre-pension benefits creates activation instruments addressed to elderly employees losing work (necessity of looking for a job at least for six months before receiving benefits) and limits the access as well as attractiveness of pre-pension benefits. It creates also

financial incentives for undertaking work by persons entitled to benefits and pre-pension benefits.

- Program 50 +.

The program relates to:

- occupational activation of persons of over 50 years of age by ensuring for them the conditions for maintaining employment or creating the possibilities of undertaking work on the basis of contract of employment or self-employment;
- creating models of employment services influencing employers and local (regional) occupational activation models.

The preliminary element of realisation of this task is the law of 20 April 2004 adopted by the Sejm on the promotion of employment and labour market institutions. It is foreseen that the first competition for activity within the framework of the Program will be announced in forth quarter of this year.

- Disseminating flexible work forms.

A revision of the currently binding legal regulations in cooperation with social partners in the Tripartite Commission was conducted in order to elaborate new legislative proposals disseminating work time flexibility and work safety at the same time.

- Preparation of a system of bridge pensions and compensations.

Draft law and forwarding it for social consultations is being elaborated. The draft law is to introduce until 2007 a system of bridge pensions for persons working in special conditions and in a special character and a system of compensation for persons, who were entitled to earlier pensions under the previous system and will not be covered by the bridging pensions system.

- New principle of valorisation of old age and disability pensions.

On 15 July 2004 the Sejm of the Republic of Poland adopted the amended law on *old age and disability pensions from the Social Insurance Fund (FUS)*. Old age and disability pensions will be valorised only when the cumulated inflation exceeds 5%, but not less often than every two years. Moreover the new law introduced provisions liquidating the “old portfolio” i.e. increasing the benefits of pensioners, for whom the pensions are calculated on the basis of a lower base amount.

- Abolishing the automatic indexation mechanisms.

Departure from automatic indexation and valorisation mechanisms will be done by amending ordinances, the list of which is being prepared in the Ministry of Finance.

In the scope of improving conditions in order to increase productivity

- Pursue and reinforce efforts to improve the efficiency and quality of the education and training system and its responsiveness to changing skills requirements
- Promote R&D and innovation, in particular in the business sector, and support the transfer of knowledge through FDI

For the years 2004-2006 activities for increase of innovativeness of the economy were included in documents programming the use of structural funds, within the framework of the *National Development Plan for the years 2004-2006* – to a great extent in the *Sectoral Operational Program Improvement of Competitiveness of Enterprises (SOP ECG)* and to a

smaller extent in the *Integrated Operational Program of Regional Development (IOPRD)* and in *SOP Human Resources Development (SOP HRD)*.

The Ministry of Economy and Labour in cooperation with Ministry of National Education and Sport conducts intensive activities focused on **human resources development**, adaptation of education to Labour market demands and ensuring a high quality training offer¹².

Adapting education to the labour market demands is visible also in formulated education aims binding in general education schools (i.a. defined abilities and attitudes of school-leavers). At the different levels of education subjects promoting the concept of entrepreneurship are introduced (i.a. in lower secondary schools is *Upbringing for active participation in economic life* is implemented, in higher secondary schools the subject *Basics of entrepreneurship* was introduced, organising olympiad, competitions and contests in schools.

The law *on promotion of employment and labour market institutions* introduced a number of instruments stimulating growth of continuing education of employees. The basic one is the **training fund** devoted to financing and co-financing of the cost of training for employees and entrepreneurs.

In the scope of accelerating restructurisation and privatisation processes

- Reduce the overall level of State aids, whilst reorienting aid towards horizontal objectives
- Encourage market entry and effective competition in network industries while pursuing a greater connectivity of national markets

According to estimates state aid granted in 2003 was higher than a year earlier and amounted to ca. PLN 22 billion. At the same time it should be underlined that the high level of aid granted in 2003 resulted from the realisation of government anti-crisis action package, a part of which are two laws: the Law of 30 October 2002 on state aid to entrepreneurs of special significance for the labour market and the Law of 30 August 2002 on restructurisation of public law liabilities from entrepreneurs. Systematically implemented is also the plan of changes in the scope of public aid (changes of its character and the directions of its transfer) and of limiting it.

In the years 2007-2013 **public aid** will to a greater extent focus on aims of horizontal character. However the importance of aid directed at different sectors of economy should decrease. Public aid, hitherto concentrated in large state enterprises, will be replaced by aid addressed to small and medium-sized enterprises implementing new technologies and new management models. Reorientation of public aid should consist in replacing passive tools by active ones. The first serve first of all to decrease or renounce liabilities of non-profitable and indebted economic subjects, the latter are to serve financial support for subjects that undertake innovative ventures and without support will not be able to develop their activity.

Due to the dynamics of the transformation process in Poland, structural reforms of network industries were undertaken after conducting macroeconomic stabilisation and liberalisation of the entire economy. Therefore liberalisation of network monopolies in Poland began only in the second half of the nineties. Presently implementation of some elements of the reforms such as privatisation, restructurisation and deregulation are continued.

The process related to the following sectors:

¹² The subject is discussed in detail in an earlier part of the document.

- telecommunication
- energy
- transport services
- postal services

In the scope of improvement of business surroundings

- Continue reducing administrative burden, simplifying regulation and supporting the growth of SMEs, in particular, by improving access to finance

The law on freedom of economic activity, adopted on 2 July 2004, determines the types of permissions for conducting economic activity, while it changes the other permissions for conducting activity functioning in legal turnover into entry into the register of regulated activity, made on the basis of statement on fulfilling the requirements specified by law (so called restricted reglamentation principle). In the light of the new law every person has free and equal rights to undertake and perform economic activity and any discrimination in this scope is restricted (restrictions only in a law and only due to important public interest).

New solutions included in the law create a decidedly better legal environment for entrepreneurs.

Among the small and medium-sized enterprises there is the tendency to finance development first of all on the basis of own resources.

The main problem limiting the access of SME to bank credit are, especially among small companies and all the more so persons starting economic activity, lack of credit history and credit reliability meaning lack of adequate credit security. High costs and complicate credit obtaining conditions are also an obstacle.

Activities have been undertaken in order to create a friendly banking system, so that an ever greater number of entrepreneurs could use bank financing. A system of incentives for banks to grant credit to small and medium-sized enterprises will be introduced.

A system of credit guarantee funds and loan funds is being developed.

Conditions for development of alternative forms of financing economic activity are being developed, such as venture capital funds, capital market, business angels networks, factoring institutions, leasing etc. Investment funds of the venture capital type will become an ever greater source of financing undertakings in enterprises.

Main economic indicators 2003:

GDP per capita (PPP)	10 854 USD ¹³
Labour productivity	56 400 PLN ¹⁴
Employment rate (15-64 years)	51.4 %
Employment rate of older workers (60-65 years)	7.2 %
Research and development sector expenditure	0.56 % PKB ¹⁵
Comparative price levels	0.8 %
Business investment	110 395,3 Mio. PLN ¹⁶
Long-term unemployment rate	10.7 %
Education attainment (20-24):	
Incompleted primary, primary, lower secondary: 8,6 % (of which woman: 6,0%)	
Basic vocational: 24,7% (of which woman: 16,9%)	
Secondary: 56,4% (of which woman: 62,7%)	
Post-seconadry: 3,4% (of which woman: 4,3%)	
Tertiary: 7,0% (of which woman: 10,1%)	

¹³ EUR 9 598 at the average exchange rate (2003) USD/EUR=1.13086

¹⁴ EUR 12 824.6 at the average exchange rate (2003) 4.3978 PLN/EUR

¹⁵ EUR 1 037,4 Mio. at the average exchange rate (2003) 4.3978 PLN/EUR

¹⁶ EUR 25 102,4 Mio. at the average exchange rate (2003) 4.3978 PLN/EUR

ANNEX – THE OTHER REFORMS

1. Privatisation

The basic privatisation processes should end by 2006. In this time Poland should achieve an ownership structure similar to that of European Union Member States.

From the perspective of 13 years of implementation of privatisation processes it can be said that privatisation is **finished** in such fields as: **trade and services, motorisation, household equipment, building, electric machinery, cement, wood and furniture, food processing and tobacco industry**. Highly **advanced** are privatisation processes in such sectors as: **banking, insurance, pharmaceuticals, sugar, alcohol, ship-building, transport, oil, energy, steel, polygraphy and telecommunication sector**. The last group consists of sectors, the privatisation of which is strictly dependent on realisation of restructuring processes. These are such sectors as: mining, gas industry, large scale chemical synthesis and arms industry.

Keeping state ownership is foreseen in relation to sectors and enterprises of strategic importance for the economy such as air and sea ports, railway networks, industrial energetic networks, gas and oil transfer networks, frame telecommunication networks or strategic warehousing bases. In the domain of public ownership remain also the sectors, where full regulation of the market cannot be introduced. This relates first of all to some public utility enterprises, i.a. some scientific institutions, the basic part of educational institutions, postal services market. The State Treasury will also remain the owner of public radio and television. The state will also dispose of companies realising determined public aims on the basis of specific laws, such as e.g. the national lotteries - Totalizator Sportowy or Monopol Loteryjny.

Advanced privatisation processes

The majority of privatisation processes in the **banking sector** are finished. The State Treasury directly controls 3 banks and indirectly 4. From the first group Bank Gospodarki Żywnościowej S.A. and Bank PKO BP S.A. are to be privatised. At the moment BGŻ S.A. realises remedial program aiming at increasing own funds of the bank to the level postulated by the Banking Supervision Commission. Public offer of the bank's shares is also not excluded.

In March 2004 the Ministry of Treasury chose an advisor, whose aim is to create a pre-privatisation analysis, elaborate and recommend a privatisation strategy and prepare and conduct the sale of bank PKO BP S.A. shares. The privatisation advisor prepared and submitted all the analyses and the emission prospectus was filed in the Polish Securities and Exchange Commission (KPWiG) on 23 July 2004. Public offer (30% PKO BP S.A. shares) is planned for the second half of October 2004.

Continuation of the privatisation processes of the **insurance sector** is restricted to plans of conducting the second stage of privatisation of the biggest insurance company in Poland PZU S.A., as it is the only entity on the insurance market controlled by the State Treasury (presently in the sector operate 74 insurance undertakings, which with the exception of PZU S.A. remain in private hands). The condition for conducting public offer of PZU S.A. is finishing the arbitration proceedings instituted by Eureko B.V. (PZU S.A. strategic investor) in October 2002. Settling the dispute is planned for the end of 2004.

The basic privatisation processes in the **pharmaceuticals industry** are finished. The state disposes of only 4 entities. In accordance with the privatisation strategy for the

pharmaceuticals sectors consolidation of the 3 remaining companies of the sector took place (10% market share, considering the amount of pharmaceuticals sold). It is planned to introduce shares of the pharmaceuticals holding on the Warsaw Stock Exchange.

Currently in the **oil sector** is implemented the strategy of the Lotos Group (earlier Rafineria Gdańska) development by joining the company of three southern refineries (Czechowice, Jasło, Głimar), and in the future also of Petrobaltic company. Privatisation of the Lotos Group is planned after its creation is finished by emission of its shares on the state market. Independent of work on building the Lotos Group work was undertaken on a project of Central European oil concern with the participation off PKN Orlen and possibly the Lotos Group.

Privatisation of the **energy sector** is greatly advanced. Hitherto 4 from among 16 power plants and 10 from 23 heat and power plants have been privatised. Apart from the individual privatisation processes currently realised (in relation to 2 power plants, 2 heat and power plants and 3 heat plants), consolidation processes on the basis of two capital groups are conducted:

- BOT Górnictwo i Energetyka S.A: energetics concern covering 3 power plants and 2 brown coal mines, constituting the energy resource of the State Treasury. Making Available of a minority BOT Group block of shares (10-25%) is planned for 2005/06.
- Południowy Koncern Energetyczny S.A. It consists of 6 power plants and 2 heat and power plants. Privatisation of PKE S.A. is planned for 2005 in the form of public offer.

The privatisation of 2 among the 29 distribution plants was finished in the individual mode. In relation to the other energy plants consolidation processes are conducted, realised within the framework of 5 regional groups of companies. Three of the five groups have finished consolidation, in one of them the implementation of the privatisation process started; after consolidation finishes privatisation of all the distribution companies groups is planned. The preferred privatisation mode will be public offer.

In the **telecommunication sector** as a result of hitherto privatisation activities the State Treasury owns a minority block of shares of the greatest telecommunication operator – TP S.A. (3.9%) – sale of the block is planned.

Due to the situation in the **air transport sector**, continuation of privatisation activities in relation to PLL LOT is not planned in the near future (as a result of the first stage a minority block of shares of LOT was taken over by Swissair and employees).

In the **steel sector**, on 27 October 2003 privatisation contract with LNM Holdings N.V. was signed, and it entered into force on 5 March 2004. As a result of the transaction the share of the State Treasury in the company decreased to 25% + 1 share. The contract foresees that the block of shares remaining in the hands of ST can be made available to the investor only in 2007. Together with PHS S.A. privatisation the basic process of the steel sector privatisation finished.

Initiated Privatisation processes

Privatisation activity in the **coal sector** will be preceded by restructurisation and consolidation of the enterprises of the sector. The following organisational solutions are foreseen:

5 entities will function independently (two coal companies: Katowicki Holding Węglowy and Jastrzębska Spółka Węglowa, Lubelski Węgiel Kamienny Bogdanka, KWK Budryk, Zakład

Górnictwo-Energetyczny Sobieski-Jaworzno III), 23 coal mines with chances for permanent and effective activity created the Kompania Węglowa (the company was registered on 23 January 2003).

Due to the necessity of adapting productive capabilities to the demands of the market in some companies the process of relinquishing production will begin.

The target intention of the state is to step back from the function of owner to that of regulator and administrator of the hard coal mining sector. Currently work is conducted to choose an advisor to the Minister of Treasury on the process of privatisation of Katowicki Holding Węglowy S.A. The remaining entities will be privatised after the restructurisation process finishes.

Large scale chemical synthesis sector. In November 2003 the government adopted the **Strategy of restructurisation and privatisation of the Large Scale Chemical Synthesis Sector** (LSCSS) covers 6 entities. The aim of LSCSS plants restructurisation is their privatisation within 2-5 years. The privatisation process will consist in engaging strategic capital investors interested in development and modernisation of the national industry. In cases justified by investments needs of LSCSS entities privatisation by increasing the initial capital and taking up by an investor of shares in the increased capital is foreseen.

Gas sector. Currently conducted is work on amending the Program of restructurisation and privatisation of the dominated operator on the **gas market** in Poland, the PGNiG company. A transfer system operator (the company started activity on 1.7.2004), dependent companies operating the sector of distribution (the companies started activity on 1.01.2003) were separated from the PGNiG structures. After the organisational restructurisation finishes sale of a minority block of shares of PGNiG is planned in the form of public offer.

2. Restructurisation

Considering the importance of hard coal in Poland's energetic balance one of the priority activities is consistent continuation of the **coal mining restructurisation process**, the effect of which will be the reestablishment of full economic stability and financial liquidity of mining enterprises.

In order to create the legal framework enabling implementation of these objectives the Council of Ministers adopted on 28 January 2003 the **Program of restructurisation of hard coal mining in Poland in the years 2003 - 2006** using anti-crises laws and initiating privatisation of some companies (with corrections resulting from the Agreement with the trade unions of 11 December 2002 and corrections resulting from the legal status of the sector on 10 January 2003). Acceptance of information on realisation of the program constituted the basis for elaborating draft law on restructuring hard coal mining in the years 2003 – 2006¹⁷. The law contains necessary instruments allowing realising the aims of hard coal mining restructurisation in Poland. On the basis of the law it will be possible to redeem public legal obligations of mining enterprises together with interest. The provisions of the law also introduced protective and activating and adaptative instruments for employees of mining enterprises.

Supply and demand changes on the external market in the second half of 2003 and 2004 different from the annual, seasonal changes in the economic situation and the necessity to

¹⁷ On 28 November 2003 the parliament adopted the law, which entered into force on 29 December 2003.

elaborate documents necessary to grant public aid to mining, compliant with EU law caused the necessity to update the way of implementation of the hard coal mining restructuring program by correction of the basic tasks and restructurisation intentions. This was included in the document adopted on 27 April 2004 by the Council of Ministers under the title: **Restructurisation of hard coal mining in the years 2004 – 2006 and strategy for the years 2007 – 2010**.

In accordance with the consulted with European Commission and accepted by the Polish government common position, the document **Restructurisation and development of Iron and Steel Industry until 2006** (adopted by the Council of Ministers on 10 May 2003, with changes accepted on 25 March 2003) was elaborated. In this document were indicated steelworks using public aid until the end of 2003. In steelworks companies covered by the program the number of staff in the years 1999-2003 was reduced by 60.4 thousand to the level of 21.1 thousand persons, with additional financing from budget funds in the amount of PLN 107 Mio. It is planned to devote further PLN 70 Mio for further necessary rationalisation of employment in the years 2004-2006 for protective benefits connected with occupational activation of employees losing jobs in the industry.

The lasting for many years **restructurisation of the energy sector** aims at preparing Polish enterprises to effective operation on the European Union energy market and implementing the provisions of market directives of the European Community. In the energy sector under way is the process of creating distribution companies groups. There emerge the concerns: Enea S.A. on the basis of five energy plants from the north-east Poland, EnergiaPro S.A. on the basis of five energy plants from the south-west region and ENION S.A. on the basis of five energy plants from south-central region.

In 2004 the process of restructurisation of the energy and gas sector was continued. In accordance with the requirements of the new single energy and gas market directives from the hitherto structure were separated PSE S.A. and PGNiG S.A. dependent companies, which took on the obligations to manage electric energy and gas transfer network movement.

In 2004 the provisions of documents determining the policy in other sector were implemented:

Strategy for the pharmaceuticals industry until 2005 (adopted by the Council of Ministers on 1 October 2002) – on 16 April 2004 the Minister of Treasury established Polski Holding Farmaceutyczny Spółka Akcyjna with registered seat in Pabianice. Organisational and consolidation work is currently conducted in the holding.

Strategy for light industry for the years 2000-2007 (adopted by the Council of Ministers in 2000 and broadened in 2003). In July 2004 the Council of Ministers amended the ordinance on the detailed principles, scope and mode of granting subsidies to interest of bank credits devoted for financing tasks connected with restructurisation of the light industry in order to improve efficiency effectiveness of using the instrument in the form of surcharges by entrepreneurs undertaking restructurisation activities. Until 31 July 2004 the minister competent for economy issued 8 positive opinions for 18 submitted restructurisation programs, but 2 enterprises signed credit contracts.

Strategy for the chemical industry in Poland until 2010 (adopted by the Council of Ministers on 4 June 2002). The role of coordinating tasks and supporting investment processes was assigned to Nafta Polska S.A. on the basis of empowerment of the Minister of

Treasury. In accordance with the implementation of tasks resulting from the „Strategy ...” the Ministry of Treasury in cooperation with the Ministry of Economy and Labour elaborated the Strategy of restructurisation and privatisation of the sector of Large Scale Chemical Synthesis.

Strategy for the wood industry until 2006 (adopted by the Council of Ministers on 19 August 2003).

The document entitled „**Motor Industry – directions of proposed actions**”, (adopted by the Council of Ministers on 7 January 2003). Restructurisation activities and search for a strategic investor in Daewoo-FSO Warszawa continued. A new investor was found for the company Daewoo Motor Polska (in bankruptcy) in Lublin.

In accordance with the activity directions adopted in the document entitled „**Situation in the Polish shipbuilding industry – proposed activity directions and support mechanisms for the sector**” temporary activities are conducted (Treasury sureties, KUKI Guarantees) supporting the activity of two biggest Polish shipyards. The shipyards elaborated and implement restructurisation programs. Public aid is granted them on the basis of the programs. Continuing activities for improving the functioning of the sector in April 2004 the Council of Ministers adopted the document entitled „**Information on undertaken sanation activities for shipyards together with the sector’s consolidation plan**”. The document recognizes that creating a capital group with a common action strategy in the scope of market development, productions and economic activity financing organisation creates the possibility of integrating marketing, project and supply activity. Work connected with consolidation of the sector is under way.

Strategy for the electronic sector until 2010 was adopted by the Council of Ministers on 8 January 2003.

3. Agriculture and rural development

In programs currently realised from national and EU funds a number of activities aiming at improving the living and work conditions of the inhabitants of rural areas were foreseen. The activities focus on improving competitiveness of the agri-food sector and on sustainable development of rural areas.

Continued is the realisation of the pre-accession operational program SAPARD, (in the years 2005-2006 applications from financial aid accepted in 2004 will be realised and settled), within the framework of which supported are:

- restructurisation of processing and improvement of marketing of agricultural and fishery products (support covers the milk, meat, fish, fruit and vegetables sectors),
- investment in agricultural holdings (improvement of agricultural production quality, directing production in compliance with the natural conditions of the environment),
- development and improvement of rural areas infrastructure (provision of rural households with water, removal of communal waste, solid waste management, modernisation and building of gmina and powiat roads on rural areas, energy supply),
- differentiating economic activity on rural areas (creating sources of additional income in agricultural holdings, creating workplaces on rural areas, public tourist infrastructure on rural areas),
- occupational training aiming at promoting agriculture and rural areas development by enhancing the human capital,

- technical assistance.

Until 30 June of 2005 the Program of Activation of Rural Areas will be continued. The program is financed in the amount of EUR 118.8 Mio from a credit of the World Bank. Together with national funds (of the local government and the budget) for the realisation of the program the amount ca. EUR 300 Mio is devoted.

The main aim of the program is support in economic development of rural areas through:

- creating new non-agricultural workplaces on rural areas,
- rural infrastructure development and improvement of education of inhabitants of rural areas,
- decentralisation of public administration and regional development,
- preparing institutions for management of European Union funds.

Within the **Plan of Rural Areas Development for the years 2004-2006** (PRAD), co-financed for the EAGGF Guarantee Section the following actions will be undertaken:

- structural pensions,
- supporting agricultural activity on areas with unfavourable farming conditions,
- afforesting agricultural land,
- support for low-output agricultural holdings,
- agricultural producers groups,
- adapting agricultural holdings to EU standards,
- technical assistance,
- supporting agricultural and environmental activities and improvement animals inventory.

For the realisation of PRAD in the years 2004-2006 it is foreseen to spend the amount of EUR 3,592.4 Mio, out of which EU funds will amount to EUR 2,866.4 Mio, and national funds to the equivalent of EUR 726 Mio.

Sectoral Operational Program Restructurisation and Modernisation of the Food Sector and Rural Development 2004-2006 co-financed with EAGGF covers the following activities:

- investment in agricultural holdings,
 - facilitating the start of young farmers,
 - differentiating agricultural activity and activity close to agriculture in order to ensure activity differentiation and alternative sources of income,
 - development and improvement of technical infrastructure connected with agriculture,
 - occupational training,
 - support for agricultural advice giving,
 - improvement of processing and marketing of agricultural goods,
 - restoring the forestry production potential destroyed by natural disaster and/or fire and introducing proper preventive instruments,
 - consolidation of land,
 - renovation of rural areas and cultural heritage protection and maintenance,
 - agricultural water resources management,
 - pilot Leader+ Program,
- and technical assistance.

Polish country within this program may obtain in the years 2004-2006 support in the amount of EUR 1,784.2 Mio, out of which EU funds will constitute EUR 1,192.7 Mio and EUR 591.5 Mio will stem mainly from the state budget.

Within work on the **National Development Plan for the years 2007-2013** the project of **Medium-term strategy of agriculture and rural areas development for the years 2007-2013** was prepared. The strategy will be the reference point for preparing operational programs realised from 1 January 2007 on the basis of regulation of the Council (EC) on support for rural areas development from the European Agricultural Funds of Rural Areas Development.

4. Fisheries

All national legal provisions in the scope of fisheries were adapted to EU regulations. Within the framework of realisation of structural policy objectives the following activities will be undertaken:

- maintaining a stable balance between fisheries resources and their exploitation,
- strengthening the competitiveness of structures and development of profitable enterprises operating in this sector, improving market supply and increasing value added of fisheries and aquaculture products,
- enlivening areas dependent upon fishery and aquaculture,

Prepared was the Sectoral Operational Program *Fishery and fish processing 2004-2006*, which will be co-financed from the Financial Instrument for Fisheries Guidance (FIFG).

The priorities of the program include:

- adopting the fishing input to resources,
- renovation and modernisation of the fishery fleet,
- protection and development of water resources, breeding, fishery shipyard infrastructure, fish processing and market, inland fishing,
- other activities (social and economic activities, promotion, innovative activities, fish market organisation),
- technical assistance.

For the implementation of the program it is planned to devote in the years 2004-2006 ca. EUR 373 Mio, out of which EUR 202 Mio will stem from the EU budget (FIFG), EUR 80 Mio from national public funds, and ca. EUR 92 Mio from the means of private entities applying for support.

5. Labour market

The most important activities, **undertaken by the government** in the scope of regulation of the labour market and preventing unemployment include changes in the labour law, conducted labour market policy, changes in the institutional and legal situation of public employment services.

Labour law

In the scope of labour law among the most important changes should be enumerated i.a.:

- restoring limiting the number of contracts of employment entered for a determined period of time;
- introducing new solutions relating to working time – i.a. the employer has greater freedom in determining the hours and days of work and in the periods of settling with employee overtime and work during on holidays, solutions were introduced that are to increase the possibility of working part-time, moreover the remuneration for overtime was decreased;
- legal regulation of temporary work and temporary work agencies, which is to foster this type of employment;

- prolonging the minimum period of leave of absence from 18 to 20 days a year, introducing slightly more favourable solutions for people undertaking work for the first time;
- introducing provisions on anti-discrimination to the labour code;
- allowing for an interim period – until the end of 2005 – the possibility of settling by the employer remuneration in the amount lower than the minimum wage for persons who did not work for the past two years, however not lower than 80% of the lowest wage in the first year of work and 90% of the minimum wage in the second year of work.

Labour market policy

In the scope on exerting direct influence on the labour market by means of active and passive labour market policies the most important change is significant restriction – from 1 August 2004 – of the possibility of going over to pre-pension benefits and the amount of such benefits. These activities that are to increase occupational activity of elder persons are accompanied by the activation program 50+.

Cost of work

One of the main factors limiting the possibilities of increasing employment in Poland is the high tax wedge, which in 2003 amounted to 41.4 per cent (for a single person achieving 67 per cent of the average wage in the national economy) and was higher than the average tax wedge in the European Union and acceding countries. High burden on work makes employers chose capital intensive solutions, which results in cementing structural unemployment. Considering the importance of the problem, intensive work is conducted on the different possible solutions, which would lead to decreasing the tax wedge and on their financial consequences.

Occupational mobility

Problems of the Polish labour market are made worse by low occupational and spatial mobility of employees, in particular those with low qualifications. In order to promote the adaptability and mobility capabilities on the labour market it is planned to undertake the following actions: occupational reorientation of persons threatened with restructurisation processes, implementation of the EURES system, introducing monitoring of deficit and surplus occupations, promoting flexible forms of employment, implementing labour demand forecasting system in Poland, which will make it possible to on a regular basis determine the directions and intensity of changes taking place in the occupation and qualification structure on the regional and national labour market.

Continuing education

In Poland 46% persons between 25 and 64 year of age have at least secondary education (in relation to 60% in OECD countries). This points to the challenges before the continuing education system. A confirmation of its priority importance were planned activities aiming at promoting human capital development and life-long learning. The most important include: elaborating and implementing a nation-wide system of information on continuing education possibilities in the different regions of the country, establishing and determining the principles of regional distance learning centres networks, increasing access to education at all levels – from kindergarten education to continuing education of adults, including promotion of life-long learning on rural areas, increasing the quality of education in accordance with the labour market requirements.